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Canada - Banking and Commerce
Standing Committee on, 1955

HOUSE OF COMMONS

479
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Second Session—Twenty-second Parliament
1955

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Meeting no 7, 1956

STANDING COMMITTEE

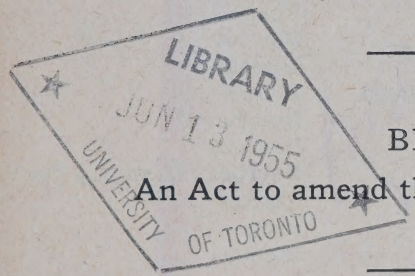
ON

BANKING AND COMMERCE

Chairman: DAVID A. CROLL, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1



BILL 258

An Act to amend the Municipal Grants Act.

TUESDAY, MAY 31, 1955

WITNESSES:

The Honourable Walter E. Harris, Q.C., Minister of Finance; Mr. J. J. Deutsch, Assistant Deputy Minister of Finance.

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AWA, 1955

STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: David A. Croll, Esq.

and Messrs.

| | | |
|-------------------------------|-----------------------------------|-----------------------------------|
| Anderson | Fraser (<i>Peterborough</i>) | Mitchell (<i>London</i>) |
| Applewhaite | Fraser (<i>St. John's East</i>) | Monteith |
| Arsenault | Fulton | Nickle |
| Ashbourne | Gagnon | Noseworthy |
| Balcom | Hanna | Pallett |
| Benidickson | Hellyer | Philpott |
| Bennett (<i>Grey North</i>) | Henderson | Picard |
| Blackmore | Huffman | Pouliot |
| Cameron (<i>Nanaimo</i>) | Hunter | Quelch |
| Cannon | Johnson (<i>Kindersley</i>) | Richardson |
| Cardin | Low | Robichaud |
| Crestohl | Macdonnell | Rouleau |
| Croll | MacEachen | Stewart (<i>Winnipeg North</i>) |
| Dufresne | Macnaughton | Tucker |
| Dumas | Matheson | Viau |
| Fleming | Michener | Weaver |
| Follwell | | |

R. J. Gratrix,
Clerk of the Committee.

ORDER OF REFERENCE

THURSDAY, May 12, 1955.

Ordered,—That the following Bill be referred to the said Committee.
Bill No. 258, An Act to amend the Municipal Grants Act.

Attest.

LEON J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

WEDNESDAY, June 1, 1955

The Standing Committee on Banking and Commerce begs leave to present the following as its

FIFTH REPORT

Your Committee has considered Bill No. 258, An Act to amend the Municipal Grants Act, and has agreed to report the said Bill without amendment.

Your Committee considered certain proposed amendments to Clause 6 of the said Bill, but as these amendments would result in an increased charge upon the public, your Committee is of the opinion that it has no option, under the Rules of the House and the terms of its Order of Reference, but to report the said Clause without amendment. Your Committee would, however, recommend that the Government give consideration to the advisability of introducing the following amendments to Bill No. 258:

For Clause 6 substitute the following:

6. Section 8 of the said Act is repealed and the following substituted therefor:

8. (1) A grant may, pursuant to this section, be made to a municipality in respect of real property that is

- (a) owned by Her Majesty in right of Canada,
- (b) leased to or occupied by a person who is an employee of Her Majesty in right of Canada or a member of the Canadian Forces, and
- (c) is used by such person as a domestic establishment.

(2) Subject to sub-section (3) the amount of a grant made pursuant to this section shall not be greater than a fraction of the accepted value of the property in respect of which a grant may be made under this section, such fraction to be determined as follows:

- (a) the numerator is the total amount of the real estate tax levied in the appropriate tax year, and
- (b) the denominator is the assessed value of all taxable property in the municipality.

(3) Where in preparing its budget for any tax year a municipality has not taken into account the amount of a grant that may be paid under this section the denominator of the fraction referred to in sub-section (2) shall be the assessed value of all taxable property and the accepted value of the property in respect of which a grant may be made under this section in the municipality.

(4) The Minister may, in determining the amount of a grant under this section, deduct from the amount that might otherwise be payable an amount that, in his opinion, represents the value of a service that would customarily be furnished by the municipality to the property in respect of which the grant is made and that Her Majesty does not accept in respect of that property.

- (5) No grant shall be made under this section in respect of
- (a) property in respect of which a grant has been made under section 5,
 - (b) property described in sub-paragraph (iv) of paragraph (c) of section 2, or
 - (c) property in respect of which a real estate tax has been levied on a person described in paragraph (b) of sub-section (1).

(6) In applying paragraph (a) of section 2 to this section, the words "federal property" shall be construed as meaning property in respect of which a grant may be made under this section.

9. A grant may be made to the City of Ottawa in an amount that, in the opinion of the Minister, is a reasonable compensation for the expenses incurred by that City in furnishing services to the property referred to in sub-paragraph (vi) of paragraph (c) of section 2.

10. The Governor in Council may make regulations to provide, out of moneys provided by Parliament, grants to municipalities, other than cities, towns or villages, in amounts that, in the opinion of the Minister, represent the expenses incurred by the municipalities by reason of the existence of federal property within or near their borders.

A copy of the evidence adduced is appended hereto.

All of which is respectfully submitted.

DAVID A. CROLL,
Chairman.

(Note: The First to Fourth Reports inclusive dealt with Private Bills in respect of which verbatim evidence was not recorded.)

MINUTES OF PROCEEDINGS

Room 497,

TUESDAY, May 31, 1955.

The Standing Committee on Banking and Commerce met at 10.30 o'clock a.m. this day. Mr. David A. Croll, the Chairman, presided.

Members present: Messrs. Applewhaite, Balcom, Cannon, Crestohl, Dumas, Fleming, Fraser (*St. John's East*), Fulton, Hanna, Henderson, Huffman, Hunter, Low, Macdonnell (*Greenwood*), Mitchell (*London*), Philpott, Richardson, Robichaud, Tucker and Weaver.

In attendance: The Honourable Walter E. Harris, Q.C., Minister of Finance; and the following officers of the Department of Finance: Messrs. J. J. Deutsch, Assistant Deputy Minister, R. M. Burns, Special Assistant, D. H. Clark and C. H. Blair, officers of the Municipal Grants Division.

The Committee commenced consideration of Bill No. 258, An Act to amend the Municipal Grants Act.

On motion of Mr. Fraser (*St. John's East*),

Resolved,—That the Committee print 750 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence in respect of Bill No. 258, An Act to amend the Municipal Grants Act.

Mr. Harris made a statement on the Bill pointing out the additional benefits that would accrue to the municipalities concerned as a result of the proposed revision of the existing Act.

Thereupon, a discussion arising as to the advisability of calling representatives of the Canadian Association of Mayors and Municipalities to attend and give evidence on the said Bill,

Mr. Fleming moved:

That the Canadian Association of Mayors and Municipalities be invited to attend before this Committee and submit its views in relation to the revision of Bill 258.

After discussion, and the question having been put, the said motion was resolved in the negative.

Mr. Harris was examined on his statement and the provisions in the Bill, Mr. Deutsch answering questions specifically referred to him.

Mr. Harris tabled the following document:

List of grants made to municipalities in the fiscal year 1954-1955 under section 5 of the existing Act.

Ordered—That the said document be incorporated in this day's evidence.

The Committee then commenced a clause by clause consideration of the said Bill.

Clauses 1 to 5, inclusive, were severally considered and adopted.

On Clause 6, Mr. Harris tabled the following proposed amendments:

For Clause 6 substitute the following:

6. *Section 8 of the said Act is repealed and the following substituted therefor:*

8. (1) A grant may, pursuant to this section, be made to a municipality in respect of real property that is

(a) owned by Her Majesty in right of Canada,

(b) leased to or occupied by a person who is an employee of Her Majesty in right of Canada or a member of the Canadian Forces, and

(c) is used by such person as a domestic establishment.

(2) Subject to subsection (3) the amount of a grant made pursuant to this section shall not be greater than a fraction of the accepted value of the property in respect of which a grant may be made under this section, such fraction to be determined as follows:

- (a) the numerator is the total amount of the real estate tax levied in the appropriate tax year, and
- (b) the denominator is the assessed value of all taxable property in the municipality.

(3) Where in preparing its budget for any tax year a municipality has not taken into account the amount of a grant that may be paid under this section the denominator of the fraction referred to in subsection (2) shall be the assessed value of all taxable property and the accepted value of the property in respect of which a grant may be made under this section in the municipality.

(4) The Minister may, in determining the amount of a grant under this section, deduct from the amount that might otherwise be payable an amount that, in his opinion, represents the value of a service that would customarily be furnished by the municipality to the property in respect of which the grant is made and that Her Majesty does not accept in respect of that property.

(5) No grant shall be made under this section in respect of

- (a) property in respect of which a grant has been made under section 5,
- (b) property described in subparagraph (iv) of paragraph (c) of section 2, or
- (c) property in respect of which a real estate tax has been levied on a person described in paragraph (b) of subsection (1).

(6) In applying paragraph (a) of section 2 to this section, the words "federal property" shall be construed as meaning property in respect of which a grant may be made under this section.

9. A grant may be made to the City of Ottawa in an amount that, in the opinion of the Minister, is a reasonable compensation for the expenses incurred by that City in furnishing services to the property referred to in subparagraph (vi) of paragraph (c) of section 2.

10. The Governor in Council may make regulations to provide, out of moneys provided by Parliament, grants to municipalities, other than cities, towns or villages, in amounts that, in the opinion of the Minister represent the expenses incurred by the municipalities by reason of the existence of federal property within or near their borders.

After discussion on the said proposed amendments, the Chairman informed the Committee that as the proposed amendments involved an increased charge upon the public, the Committee was not competent to amend the said clause but that a recommendation would be included in the report to the House recommending the proposed amendments.

The proposed amendments were adopted in principle and Clause 6 was adopted.

Clauses 7 and 8 and the Title were severally considered and adopted.

The Bill was adopted and the Chairman ordered to report the said Bill to the House without amendment and with the appropriate recommendation in relation to the proposed amendments to Clause 6.

At 12.35 o'clock p.m., the Committee adjourned to meet again at the call of the Chair.

R. J. Gratrix,
Clerk of the Committee.

EVIDENCE

May 31, 1955.
10.30 a.m.

The CHAIRMAN: Gentlemen, we have a quorum. I require a motion to print.

Moved by Mr. Fraser (*St. John's East*).

That the committee print 750 copies in English and 200 copies in French of its minutes of proceedings and evidence in respect of Bill No. 258, an Act to amend the Municipal Grants Act.

The CHAIRMAN: Does the motion carry?

Carried.

The CHAIRMAN: We have with us this morning the Minister of Finance who has a statement to make.

Hon. Walter E. HARRIS, Minister of Finance: Mr. Chairman, I made a rather lengthy statement in committee on the resolution with regard to the general purposes of the proposed amendments. I want to add one more explanation, however, because in the interval we have decided on further amendments to the bill and I think the purpose of the amendments will be clear if I read a very short statement to the committee:

The purpose of the amendment is to permit grants in lieu of taxes on Crown-owned dwellings occupied by Crown employees or members of the Armed Forces. These grants will be paid on this class of property to municipalities even though they would not otherwise qualify for annual grants because they do not contain the required 2 per cent of federal property.

Some provinces have legislation that gives municipalities authority to tax occupants of Crown-owned dwellings. This raises a number of problems and I believe the fairest method of dealing with them is for the Government to pay grants to municipalities in all provinces which grants would be, in effect, equivalent to the taxes on all such occupants. The payment will be recovered, in large part, by an adjustment in the rents charged employees who occupy Crown-owned dwellings.

In taking this step we are recognizing the fact that residential property imposes a greater financial burden on a municipality in the provision of municipal services generally than do other classes of property. The effect of this, for example, would be that municipalities such as the town of Chambly, Quebec, or the city of Peterborough, Ontario, both of which I think are below the 2 per cent level, would nevertheless qualify for payments in lieu of taxes on federal dwellings located there.

FURTHER AMENDMENTS TO MUNICIPAL GRANTS ACT

8: (1) A grant may, pursuant to this section, be made to a municipality in respect of real property that is

(a) owned by Her Majesty in right of Canada,

(b) leased to or occupied by a person who is an employee of Her Majesty in right of Canada or a member of the Canadian Forces, and

(c) is used by such person as a domestic establishment.

(2) Subject to subsection (3) the amount of a grant made pursuant to this section shall not be greater than a fraction of the accepted value of the property in respect of which a grant may be made under this section, such fraction to be determined as follows:

- (a) the numerator is the total amount of the real estate tax levied in the appropriate tax year, and
- (b) the denominator is the assessed value of all taxable property in the municipality.

(3) Where in preparing its budget for any tax year a municipality has not taken into account the amount of a grant that may be paid under this section the denominator of the fraction referred to in subsection (2) shall be the assessed value of all taxable property and the accepted value of the property in respect of which a grant may be made under this section in the municipality.

(4) The Minister may, in determining the amount of a grant under this section, deduct from the amount that might otherwise be payable an amount that, in his opinion, represents the value of a service that would customarily be furnished by the municipality to the property in respect of which the grant is made and that Her Majesty does not accept in respect of that property.

(5) No grant shall be made under this section in respect of

- (a) property in respect of which a grant has been made under section 5,
- (b) property described in subparagraph (iv) of paragraph (c) of section 2, or
- (c) property in respect of which a real estate tax has been levied on a person described in paragraph (b) of subsection (1).

(6) In applying paragraph (a) of section 2 to this section, the words "federal property" shall be construed as meaning property in respect of which a grant may be made under this section.

The CHAIRMAN: Are there any questions on that particular aspect of the bill.

Mr. APPLEWHAITE: There is one rather obvious question that I would like to ask the minister. What arrangements are being made to ensure that when this goes into effect the provincial tax on the occupant becomes inoperative?

Hon. Mr. HARRIS: We will have to deal with the provinces on that basis. As a matter of fact the situation has arisen in Ontario, and we are going to deal with it on that basis in all provinces even if they do not have that legislation—a great many have not at the moment. We are doing it this way to cover all the provinces.

Mr. MACDONNELL: I think I should raise a general question at this point. It is clear that what the minister proposes to do is just to assume that all principle of this Bill is settled and to deal with the detailed changes as set out in the Act, point by point, but I had hoped that we might begin by a survey of the background of this whole matter, and indeed Mr. Fleming has a suggestion which he wants to make that we should have a representative of the municipalities here to appear before the committee, but before Mr. Fleming speaks to that I would like to make one or two general observations.

If we are here merely to deal with a few minor changes in this bill, that is one thing, but if we are to have the attitude of the government explained to us in the light of the progressive difficulties of the municipalities, and if the

whole background of the general question is to be raised, that is another question, and it seems to me that the wider implications should be examined before we come to the explanation of the details.

For example, I want to know more with regard to the government's approach to this matter. One specific question that I want to ask is whether they have figured out what their total contribution would be if they paid an amount equivalent to what their tax would be. They are, of course, increasing the amount they are going to give by this reduction from a 4 per cent to 2 per cent, but it is still such a trickle—it still seems to be just a drop in the bucket compared with what we believe the needs of the municipalities to be, and for that reason I want to ask certain questions. I want to know, for example, what amounts are being paid now. I want to draw the attention of the committee to the fact that we seem to have departed now from the note set in the Speech from the Throne which said:

A joint committee of both houses will be proposed to examine, in the light of the Municipal Grants Act and possible amendments thereto, the financial and other relationships of the government and the Federal District Commission with the city of Ottawa and neighbouring municipalities.

That is only a detail, but an important detail, and other things seem to enter into this as well...

The CHAIRMAN: You ask the questions; they will answer. The hearing is wide open and there are no limitations.

Mr. MACDONNELL: Yes, but there is a point which arises here and which Mr. Fleming is raising, and I will ask him to take it up with the committee now because it goes to the root of the whole matter.

Mr. FLEMING: It ties in closely with what Mr. Macdonnell has been saying. I think the only purpose of having the bill referred to this committee was that there might be a wider inquiry and that we might hear representations from the municipalities themselves, or from their own association which acts as a spokesman in relation to municipal problems—the Canadian Association of Mayors and Municipalities. It seems to me that on an occasion of this kind we should certainly invite them to come here and submit their views to us. There is nothing in this proposal to which serious objection could be taken, and it would certainly add greatly to the usefulness of an inquiry of a committee of this kind into a measure such as the one before us. It would not take long, surely, for them to arrange representation here. They could send their president, or Mr. Mooney to assist us in this inquiry. There are few enough opportunities for them to put their opinions and their views before parliamentary bodies, and here is one sitting here now to deal with a problem which is of the greatest moment to all the municipalities in this country, and it seems to me a capital opportunity for us to obtain their assistance, particularly as this would enable us to do a more effective task in regard to the bill which the House has referred to us.

Hon. Mr. HARRIS: Mr. Chairman, in deciding to refer this bill to this committee I did not know that we were going to engage upon a study of the municipal taxation problem and hear representations from the municipalities. The Speech from the Throne, as Mr. Macdonnell has indicated, did suggest that we would have a special joint committee of both houses to consider this matter but as the Prime Minister announced in the House some time ago it was not found possible to arrange for that extra committee with all the other work going on, and for that reason, and as a means of studying the terms of this bill—which I gather from the discussion on second reading were not too fully understood—it was decided to send it here for consideration; but not for

a study on the basis of representations by the municipal associations or the municipal councils of the ten provinces.

I am quite prepared to answer any questions with respect to the past administration of the Municipal Grants Act and what this bill proposes to do, but not at this stage to hear representations from any other body.

The CHAIRMAN: Mr. Minister, were representations by the Canadian Association of Mayors and Municipalities made to you before you brought this bill into the House? Could you enlighten us on that?

Hon. Mr. HARRIS: The representations which were made to the government were made publicly by telegram, the last one I recall from the Association being in the summer of last year when we gave an answer which was tabled. During the Fall, of course, I had a number of letters from various municipalities urging that special attention be given to their problems, but on this particular point you can take it for granted that every representation wanted a greater payment in lieu of taxes, or full taxes, but there was no special request that I recall that anyone should appear before parliament to urge new legislation.

Mr. CRESTOHL: My remarks will be addressed entirely to the question of order. If we were now engaged on a study in connection with the revision of the Municipal Grants Act I could understand the suggestion which Mr. Macdonnell and Mr. Fleming have made, and I could understand these suggestions being in order. This procedure would then enable the committee to revise the entire Act. But we have before us now an amending Act and I think we should confine ourselves to the amendments. If it were required that we revise the Act or review it entirely I could understand the procedure suggested by Mr. Fleming, but our business this morning is simply to address ourselves to the amendments before us.

The CHAIRMAN: Would you like to question the witness Mr. Macdonnell?

Mr. MACDONNELL: Before we pass from this subject I would like to say in answer to what Mr. Crestohl has said: surely when we have a matter of this kind before us—an important matter which was mentioned in the Speech from the Throne—there are certain questions of principle which do arise. In the debate on second reading it was made perfectly clear that we questioned the whole basis on which this is being done and I can see no reason in principle why we should not be able to take this opportunity of hearing the views of the municipalities. I think, conceivably, that they might be able to come here with an exposition of their position as it is now which might cause the government to revise its attitude.

In any event is it out of order or contrary to good sense that we should be able to hear the views of those who are most concerned while we are considering the situation? Even in the study of the amendments which are now proposed it would surely be most relevant and helpful to have the opinions of the people who are most concerned, and not to regard this matter as concerning merely a few minor details but rather to accept the position that this is the Municipal Grants Act which has had two or three years of operation and which, quite properly, we might assess with the assistance of those who are most affected.

Mr. APPLEWHAITE: Is that what the House instructed us to do when it referred this Bill to us?

Mr. MACDONNELL: The House referred this Bill to the committee and the committee I take it is entitled to look at it in the light of the circumstances which we are putting before you—a view which seems to be most reasonable and which we think would serve a useful purpose. After all, this Bill is important. We have always suggested it has never been taken as seriously

as it should be. We have not succeeded in making our view prevail and perhaps we shall not here, but is it not reasonable that the views of those most affected should be put before the committee?

Mr. FLEMING: Just a brief word to add to that. I do not understand Mr. Crestohl's point at all. We have a Bill before us which carries out an extensive series of amendments to the Municipal Grant Act and surely it is not the function of a parliamentary committee to narrow this down strictly to the four corners of the Bill which has been referred to it. I have never understood that that is the function of a parliamentary committee. If that were so there would have been no sense in referring the Bill to this committee in the first place. In the second place I think the minister has overstated the range of our submissions and has interpreted too broadly what would be involved in the proposal. It was not my suggestion that we should embark on a review of the whole question of the fiscal relations of the municipalities of this country or their revenue position. It is a matter of seeking what would, I am sure, be the helpful views of the municipalities through their own Association in relation to the considerations which this Bill presents.

There are a number of aspects to this; the minister's review in the House showed that; and I am quite sure to hear from the municipalities on all these points would be extremely helpful. What harm is there in it? The minister says we can take it for granted that the municipalities would like more money. That is true, but we could hear them and we could hear then on the various points which are raised by the Bill—matters pertaining to those points. Surely it is not going to hurt us and it will enable this committee I submit, Mr. Chairman, to do a much more effective and useful work. It is not going to delay anything.

Mr. PHILPOTT: Let us try to get further ahead with the witnesses who are already in the room before we discuss having any more witnesses.

The CHAIRMAN: Let us get on with the witnesses we have now. Are there any further questions, Mr. Macdonnell?

Mr. FLEMING: I do not wish to delay the proceedings but it seems to me that if we are going to consider having the association represented here we should send for them now. That does not need to hold us up this morning, but it would mean that they could be invited to come.

The CHAIRMAN: Mr. Mooney knows what is in this Bill; he knows it all too well, and so do the municipalities. It does not come to them as a surprise, and certainly not as a shock.

Mr. FLEMING: That is what I am saying—I think their views will be quickly and rapidly available to us. However, to bring the matter to a head I will move:

That the Canadian Association of Mayors and Municipalities be invited to attend before the committee and submit its views in relation to the provisions of Bill 258.

The CHAIRMAN: We will put it to the committee. I have a seconder. All in favour? Contrary?

The motion is lost.

Mr. MACDONNELL: There are certain questions which I should like to ask the minister at this point. The first is this: what is the total value of federal property in the municipalities?

Hon. Mr. HARRIS: We have no way of giving you that information. We could give the total assessed value of those properties on which we are paying.

Mr. MACDONNELL: But you have arrived at a figure as to the average—four per cent. You must have had figures before you as a basis for making that calculation.

Hon. Mr. HARRIS: That was a sample job on special municipalities and did not involve the grand total.

Mr. MACDONNELL: I asked if you could give me the total value of federal property in the municipalities.

Hon. Mr. HARRIS: In answer to your earlier question, Mr. Macdonnell, in the course of the debate on second reading you said you thought that if the Federal government paid 100 cents on the dollar for all property the bill would run between \$12 and \$14 million.

Mr. MACDONNELL: No. I think I said around \$25 million. I based that figure on a very simple calculation which, perhaps, is subject to qualification. I took the four per cent figure which we had respecting average Federal government ownership. Next I took the total amount reported as raised in real estate taxation and applied the percentage. I realize it was a very rough estimate. I used that two years ago and it was not questioned then, and I used it on the second reading of the Bill this time. I put the figure forward tentatively at the outset because I was surprised at the smallness of the amount when it is calculated on that basis, and I would certainly like to know exactly the scope of the problem. There is no sense in our discussing it until we have some idea of the general scope. Will you give us whatever figure you have? How was the sampling which you spoke of done, and how accurate can we take this figure of four per cent to be? It does not matter much whether it is four per cent or four and a half per cent, but it does matter whether it is four per cent or fourteen per cent.

Hon. Mr. HARRIS: As I said, we have not got the figure of the total assessed value of all federal property in all the municipalities.

Mr. MACDONNELL: You have not assembled that information? You must have it?

Hon. Mr. HARRIS: That is right.

Mr. MACDONNELL: Will you explain to us how you estimated the size of your problem. That four per cent figure had some validity presumably?

Mr. J. J. DEUTSCH, *Assistant Deputy Minister, Department of Finance*: As I understand it, sir, when the first Bill was drawn up the decision was that we would not pay grants in lieu of taxation on what was regarded at that time as an average concentration of the federal property in a community; we would only pay grants if there were a concentration above what might be regarded as an average or normal figure, and it was then decided that four per cent represented a figure which would not be an undue concentration of property.

Mr. MACDONNELL: How was that figure of four per cent arrived at? How did you arrive at that figure?

Mr. DEUTSCH: They took a sample of a number of communities where there was federal property—representative areas—and came to the conclusion that four per cent was not an undue concentration.

Mr. MACDONNELL: Who carried out this inquiry? You say “they” did. Who were “they”?

Mr. DEUTSCH: The staff of the Department of Finance.

Mr. MACDONNELL: Can you elaborate with regard to the figure? I have perhaps been taking that figure too seriously.

Mr. DEUTSCH: There was a questionnaire sent around to a number of municipalities inquiring about the relationship between the amount of federal property in a municipality as against all the property in the municipality and on the basis of this study a decision was reached that federal property up to four per cent would not be regarded as an undue concentration of federal property and the theory was then that we would pay grants in lieu of taxation on an undue concentration, and four per cent was regarded as a "floor" below which there would not be an undue concentration.

Mr. FLEMING: I am struck by the way in which you have avoided the word "average" and use the words "undue concentration". Would you enlarge on this matter of the sampling? How many municipalities were involved in the operation?

Mr. DEUTSCH: An attempt was made then to get in touch with all the municipalities in which we had property. The questionnaire was, I think, sent to all of them. I am not sure whether we got answers to all of them, but most of them were answered.

Mr. FLEMING: How many answers did you get?

Mr. DEUTSCH: I think we sent questionnaires to some 1200 municipalities and we got answers from most of them. I do not remember just what the figure was now.

Mr. FLEMING: These were representative municipalities in size and geographic distribution?

Mr. DEUTSCH: Yes.

Mr. FLEMING: When was that sampling taken?

Mr. DEUTSCH: In 1949.

Mr. FLEMING: Six years ago?

Mr. DEUTSCH: Actually the figures appertain to 1947.

Mr. FLEMING: What did the result of your sampling show—the average proportion of federally owned property against the bulk total of assessable property in the municipalities?

Mr. DEUTSCH: Actually you could get several averages depending on what federal property you included as eligible for this grant. Under the Act it is federal property as *defined*. We do not take into account everything which the Federal government owns. For instance, Crown company property is not included for the purpose of these grants because Crown companies generally make their own arrangements about taxation. In addition there is other taxable property which is excluded by definition—property such as parks and defence bases of various kinds—harbour property and things of that sort. The average you get depends on what you include. The kind of figures that were taken for the purpose of arriving at this average here were in accordance with the definition which is now in the Act, and on that basis the average at that time was around four per cent.

Mr. MACDONNELL: That was on a very special definition. Would it be fair to say that that had no relation to the municipal burdens involved—the fact that you greatly limited your definition of federal property did not affect the fact that from the municipality's point of view it might be a very much larger figure?

Mr. DEUTSCH: That depends. A lot of this property which is not included in the definition is the type of property which does not receive municipal services. We have a great deal of property—which does not receive municipal services; they are services which we ourselves provide. The definition is so framed that we do not include property with regard to which in fact there are no municipal services or where we ourselves supply municipal services.

Mr. FLEMING: To come back to this again, Mr. Deutsch: I draw attention to the fact that you are avoiding the use of the word "average". Do I take it now that the result of the sample survey was to show that as to the restricted definition of Crown property on which you were working the average of such property as against the total of assessable property in the municipalities was in fact four per cent?

Mr. DEUTSCH: I am not using the word "average" directly because so much depends on what your definition of federal property is.

Mr. FLEMING: Within the definition you have given . . .

Mr. DEUTSCH: Within that definition you could say that the conclusion reached as a result of the last survey was that a concentration of four per cent would be a rough average concentration. That is on the definition we used, and we used it in the sense that we regarded that as a "floor" and as a figure which did not represent an undue concentration. Anything above four per cent could be regarded as an undue concentration of property, and it was on that undue concentration that it was decided to pay a grant.

Mr. FLEMING: You make it clear now that you arrived at your definition of what was an undue concentration by taking an average. Anything above the average, which you found to be four per cent on this restricted definition, was regarded as an undue concentration. Conceding that there is a great deal of Crown property in each municipality which does not require to have services provided for it, have you obtained any figure as to the proportion of all Crown property, or of the proportion of Crown property less that of the Crown corporations as against the total of municipal assessments—in other words a figure based on a different definition of Crown property?

Mr. DEUTSCH: We have some figures; I have not got them here unfortunately. If you included other types of Crown property beyond those included in the definition under the Act the average percentage would of course go up. We have got averages ranging anywhere between four per cent and eight per cent depending on what is included in the definition.

Mr. FLEMING: May we take it that eight per cent would be the approximate proportion?

Mr. DEUTSCH: I would not like to say that because the original survey was taken a long time ago; and, secondly we did not get answers from all the municipalities. Therefore, I would not like to give any precise figures as to what the total of federal property might be in the widest definition as compared with all property in the municipalities. We have not got that figure precisely.

Mr. MACDONNELL: You are really working on a figure which is several years old?

Mr. DEUTSCH: The survey was made back in 1949 and it refers to the figures of 1947.

Mr. MACDONNELL: What have you done to keep them up to date?

Mr. DEUTSCH: Since the Act has been in effect we have simply carried out the Act as laid down in parliament. We have considered applications from municipalities who consider that they have a concentration of more than four per cent, and if we found that to be the case grants were paid.

Mr. MACDONNELL: You have had new municipalities come in since on that basis?

Mr. DEUTSCH: Yes, every year new municipalities come in. Because of the increase in the amount of federal property they may consider themselves as coming within the definition and make application.

Mr. MACDONNELL: Do you ever figure out what your grants would have been if you had based them on the amount of taxation on all your property?

Mr. DEUTSCH: Full taxation?

Mr. MACDONNELL: Yes.

Mr. DEUTSCH: We have made some rough calculations. I think the minister has indicated that if we paid tax on the full amount of property as defined in the Bill it would be somewhere around \$12 or \$14 million.

Mr. MACDONNELL: My figure was double that.

Mr. DEUTSCH: You might have based your calculation on a different definition.

Hon. Mr. HARRIS: Yes, Mr. Macdonnell based his figure on the total assessment of the municipalities.

Mr. MACDONNELL: I was working on the basis of the four per cent.

Mr. DEUTSCH: This figure of \$12—\$14 million is in accordance with the definition of federal property contained in this Bill, and of course that excludes certain properties.

Mr. FLEMING: I have one further question to ask on that point. Are there survey figures available which would enable you without too much difficulty to make an analysis on the basis of which you could answer the question I was asking, namely the proportion of federally owned property as against the bulk of municipal assessments if you included Crown property other than that defined more narrowly in the Act?

Mr. DEUTSCH: We have not got the figures up to date. Since the last survey was made in 1949 there has been a great deal of federal construction, particularly of defence installations and I am afraid the figures which we had some years ago would be quite out of date.

Mr. FLEMING: But taking them for what they are worth as of that date, could you give us a rough estimate based on other definitions?

Mr. DEUTSCH: I think it would be interesting to have that information if you do not mind getting it for us. Then I was wondering if in the light of the fact that you have not made any subsequent surveys or attempted to relate the accepted "floor" to the continuing figures, whether you think that such a survey would be desirable or helpful now? I realize you are dropping your "floor" from four per cent to two per cent and that may answer the problem in part, but you have pointed out that there has been a great deal of federal construction, and I am wondering now if anyone is in a position to form any estimate of what is likely to be the true average today.

Mr. MACDONNELL: In that connection would not such an inquiry have a certain relevance having regard to the conference which is due to take place later in the year and the great interest which the municipalities have in this matter?

Mr. DEUTSCH: You mean a survey of all property owned by the Crown irrespective of the definitions which is used in this Bill?

Mr. FLEMING: Either way. Take it, anyway, on the basis of your definitions to see how the trend might have gone. I can understand that even if four per cent was the average on the basis of your restricted definition in 1947, nevertheless with the Federal government embarking on a big program of construction in the intervening years four per cent might be quite inaccurate now, and your average might therefore be a good deal more.

Mr. DEUTSCH: It is hard to say, Mr. Fleming, because there has also been a great deal of other construction in that period. This is a relative figure. There has also been a tremendous amount of private construction.

Mr. FLEMING: Has anybody in your department been making any study in relation to such a trend? Is anybody in a position to offer any opinion or any factual comment today on the relevance of the average of four per cent which was arrived at on the basis of the 1947 figures?

Mr. DEUTSCH: We have not got an up-to-date study on this question. No.

Mr. FLEMING: So the drop from four per cent to two per cent is not related to any particular study—it is an arbitrary figure which has been taken?

Mr. DEUTSCH: No, I understand that the dropping of the percentage figure from four per cent to two per cent is, rather, in response, Mr. Minister, to representations from the municipalities that the grants should be liberalized.

Mr. FLEMING: Have you put a proper definition on that word “liberal”?

Mr. DEUTSCH: “Liberal” with a small “l”.

Mr. FLEMING: I think you made it clear that the drop is not related to any study or to any percentage figure. It is an arbitrary reduction which has been selected—a reduction from four per cent to two percent. Is that correct?

Hon. Mr. HARRIS: Arbitrary within the limits of the budget and our financial position.

Mr. FLEMING: I quite follow that. But it is not related to any broad principle.

Hon. Mr. HARRIS: I cannot improve on Mr. Deutsch’s definition.

The CHAIRMAN: Except perhaps to suggest that—as I am sure the committee feels—the ultimate aim is full payment.

Mr. FLEMING: Is that government policy?

The CHAIRMAN: The ultimate aim.

Mr. FLEMING: The minister has a very good opportunity to endorse your statement right now.

The CHAIRMAN: I ask for no endorsement.

Mr. PHILPOTT: I have two quite simple questions to ask. How much has Ottawa been getting in the past, and how much will she get under this Bill? How much has Vancouver been getting, and how much will Vancouver get now?

Hon. Mr. HARRIS: At the moment Ottawa is getting \$1,422,237 and it is estimated that it will run between \$2,450,000 and \$2,570,000 depending on certain uncertainties not yet cleared up. In the case of Vancouver, Vancouver has not been eligible up to the present but with this amendment the city will become eligible. I will have to supply you with the figure in a moment.

Mr. HUNTER: Will Toronto become eligible?

The CHAIRMAN: May I suggest this: The minister has a list of the municipalities which are eligible, setting out the amounts which they received last year. May I suggest that this should be put into the records?

Agreed.

SECTION 5

CALCULATION OF 1954 GRANTS

| | 1954 Grant <i>Actual</i> |
|------------------------------|--------------------------------|
| P.E.I. — Charlottetown | \$ 1,861 |
| Georgetown | 222 |
| N.S. — Halifax | 363,706 |
| Amherst | 6,641 |
| Canso | 3,187 |
| Dartmouth | 45,297 |
| Kentville | 6,214 |
| Parrsboro | 1,230 |
| Pictou | 5,395 |
| Wolfville | 2,283 |
| N.B. — Fredericton | 43,318 |
| Moncton | 30,587 |
| Saint John | 80,791 |
| Lancaster | 34,664 |
| Chatham | 9,093 |
| Newcastle | 7,276 |
| Que. — Hull | 86,637 |
| LaSalle | 34,008 |
| Lauzon | 4,195 |
| Senneville | 5,921 |
| Ont. — Ottawa | 1,427,237 |
| Cobourg | 47,105 |
| Geraldton | 31 |
| Gloucester | 6,801 |
| Kingston | 42,323 |
| Little Current | 3,660 |
| Nepean | 20,079 |
| Prescott | 6,544 |
| Man. — St. James | 1,632 |
| Swan River | 608 |
| Sask. — Prince Albert | 6,276 |
| Fort Qu'Appelle | 4,544 |
| Ituna | 293 |
| Scott | 1,473 |
| Alta. — Calgary | 30,180 |
| Leduc | 617 |
| Strathmore | 716 |
| B.C. — New Westminster | 28,362 |
| Delta | 13,274 |
| Richmond | 15,393 |
| Saanich | 2,492 |
| Y.T. — Whitehorse | 9,117 |
| N.W.T. — Hay River | 1,479 |
| Yellowknife | 3,866 |

NOTE: The following municipalities which were eligible for grants in 1954 have been excluded from the above list. In most cases this is because 1954 grants have not yet been calculated and accurate estimates cannot be made.

Nfld.—St. Johns

N.S.—North Sydney

Que.—St. Jean

St. Vincent de Paul

Ont.—North York

B.C.—Kent

Y.T.—Dawson

The District of Central Saanich, B.C., which is not in the above list received a grant in 1954 but will not qualify under the new formula owing to the exclusion of Indian Reserves which constitute nearly all of their federal property.

Mr. MACDONNELL: Could the minister not give us the information now with regard to the larger sums—the sums over \$1 million?

Hon. Mr. HARRIS: There are no others over \$1 million.

Mr. MACDONNELL: Are there any over \$500,000?

Hon. Mr. HARRIS: No. Of those now receiving grants, the next largest is Halifax, with \$363,000, which will increase to \$670,000 under these proposals.

Mr. MACDONNELL: Is any different principle applied in the case of Ottawa which accounts for this huge increase or is it merely because of the quantity of federal property in the city?

Hon. Mr. HARRIS: It is merely the increase under the formula which has been established.

Mr. APPLEWHAITE: Can the minister tell us what is the usual procedure on the part of the provinces in reimbursing the municipalities for properties held in the name of the Crown in right of the provinces? How does that method of procedure compare with our own? Is it a reasonably uniform method?

Hon. Mr. HARRIS: I am told there is no uniformity. In some provinces they do pay on some property, and in others they do not pay, and in most cases they do not pay on the whole property.

Mr. APPLEWHAITE: One more question in order that the minister may see what I am getting at: Is their payment by statute or as a matter of grace, or does it admit a legal right?

Hon. Mr. HARRIS: I think they are all made as a matter of grace.

Mr. FLEMING: It could not constitutionally be otherwise, I think you will agree.

The CHAIRMAN: There is no difference between our position and their position.

Mr. FLEMING: The constitutional position has been made clear from time to time as I think the minister will agree.

Hon. Mr. HARRIS: That is right.

Mr. HANNA: We have talked a great deal about the urban municipalities. I would like to ask a question about the position with regard to the rural municipalities. I understood when these amendments were being introduced that provision would be made to reimburse rural municipalities for damage to their roads caused by military vehicles. I have been looking through the amendments and I cannot find any particular amendment to that effect. I wonder if the minister would care to comment on that subject?

Hon. Mr. HARRIS: If you refer to clause 6 which amends sections 8 and 9—as I say, I have another amendment to it which repeals the whole of clause 6 in this bill and constitutes what is there plus certain other things.

Mr. HANNA: Do I gather from that that provision will be made to reimburse rural municipalities?

Hon. Mr. HARRIS: Perhaps we could deal with that when we come to the particular section.

Mr. CRESTOHL: Can the minister tell us how the organization of the municipalities has been informed about this Bill coming before us? How would they be made aware of it?

Hon. Mr. HARRIS: You may recall, Mr. Chairman that this change was forecast over a year ago and that we had a notice of motion on the order paper with respect to the amendment to the Municipal Grants Act which was not proceeded with; but Mr. Abbott did say about a year ago that the Bill would be proceeded with at the coming session. It was announced in the Address from the Throne. I think all the municipalities have been aware of it for over a year.

Mr. CRESTOHL: The second question which I wanted to ask, Mr. Chairman, was this: Have any requests been submitted to the government by these municipalities, or any of them, to the effect that they wanted to be heard on these amendments?

Hon. Mr. HARRIS: I do not recall any. As I said before I have had a great many representations from municipalities for a more generous grant under the Municipal Grants Act but I do not recall any requests to appear before any parliamentary body, nor for that matter do I recall them asking to come and see me.

The CHAIRMAN: As I recall it, the day the minister made the announcement on second reading the Mayoress of Ottawa was in the gallery and appeared to be very pleased. I am sure the other municipalities would have concerned themselves about this matter if there had been any difference of opinion.

Mr. APPLEWHAITE: The minister has I think, put a very ambiguous answer on the record. He said he had received many requests from municipalities for increased grants, or for more favourable terms of assistance but he did not say whether he received those requests since the introduction of this Bill or before the introduction of this Bill.

Hon. Mr. HARRIS: I have not had any communications since the introduction of this Bill, and my staff tell me that they do not recall any representations coming in.

Mr. FLEMING: I do not see that there was any ambiguity in what the minister said. He just said they did not ask about making representations to a parliamentary committee.

Mr. MACDONNELL: I was just going to comment on something that Mr. Crestohl said. I imagine that when the Bank Act was under consideration a year ago you did not just leave the position as one of "catch as catch can" for people to come or not. You invited people. But I am not going to stress that aspect of the matter.

I want to ask how much was actually paid last year in grants and what will be the amount to be paid this year?

Hon. Mr. HARRIS: Payments last year amounted to \$3,047,440.24.

Mr. MACDONNELL: That was the total for the full fiscal year?

Hon. Mr. HARRIS: That is right, but our estimate is about \$6 million for this year.

Mr. MACDONNELL: In other words it is half your \$12 million calculation which is arrived at by a restricted definition on percentage, and it is about a quarter of my calculation based on the four per cent figure overall.

The CHAIRMAN: And almost double what they got last year—I just want to finish your observations.

Mr. MACDONNELL: Oh, twice nothing is nothing.

The CHAIRMAN: Three million dollars more. I remember how you complained when Mr. Howe said: What's a million dollars?

Mr. MACDONNELL: Compared with the number of municipalities across the country.

Does this have any affect on the situation of the Crown corporations, or are they left absolutely free? Are the municipalities at arms length with them and free to arrive at a deal with them in the same way as with anybody else?

Hon. Mr. HARRIS: The Crown corporations are free. They are of course paying taxes in addition to what we are granting, and municipalities make their own arrangements in the normal course of affairs.

Mr. MACDONNELL: Has the department any knowledge as to whether in fact the arrangements which are made show that they pay normal rates or not?

Hon. Mr. HARRIS: We have no information on that.

The CHAIRMAN: Except that Mr. Murphy in speaking of the Polymer Corporation has often intimated that Sarnia is well treated, I would think that represented the normal pattern.

Mr. MACDONNELL: It doesn't though.

Mr. FLEMING: This is one point on which we should have the views of the municipalities because it is my understanding—not just based on opinion—that the municipalities have to accept virtually whatever the crown decides will be the assessment. The Crown need not accept the assessment by the municipality just as the Crown has the right to say whether it will make a grant in lieu of taxes or not, it being purely a matter of grace; so the Crown reserves the right to say what will be the amount of assessment on which taxes will be paid.

Hon. Mr. HARRIS: You do not disagree with that practice?

Mr. FLEMING: Of course the constitutional position is that the Crown cannot be taxed by the municipality. That is the position. But what I am dealing with is any suggestion that the amount that the Crown grants as a matter of grace in this situation is the same amount as would be paid on the same property if that property were privately owned.

Hon. Mr. HARRIS: You did not answer my question, Mr. Fleming. Do you disagree with the way we are doing it?

Mr. FLEMING: I disagree with any pretence that this is giving the municipality the full benefit of taxation—on Crown property—that is, the amount which could be derived from this property if it were privately owned.

Hon. Mr. HARRIS: I note that Mr. Deutsch did not say for me that the municipalities were in fact receiving full payment by way of taxes on property. It has always been made clear that we reserve the right to negotiate with the municipalities and in fact to convince them of an assessment, and so far as I know that principle has not been objected to by anyone either at this table or in the House of Commons.

Mr. MACDONNELL: I take it that the minister was not implying we were asking him to be bound absolutely by every municipal assessment. On the other hand it seems reasonable to ask what method the department uses in arriving at its assessment.

Hon. Mr. HARRIS: We follow the usual procedure of assessment of property which is followed by the municipal corporations. Let us admit it—we disagree with them on some of the assessments which they would impose.

Mr. MACDONNELL: You put in your own officials to decide assessments in every case?

Hon. Mr. HARRIS: That is right.

Mr. FRASER (*St. John's East*): It has been very satisfactory in Halifax.

Mr. HENDERSON: Further to what Mr. Hanna said a little while ago when he referred to the amendment regarding rural municipalities, I would like to say a few words on behalf of the township of Pittsburgh which is directly east of Kingston. They are I think in a unique position. They have government property assessed at \$5,534,000, and a quarter of that is living quarters. Even taking into consideration the fact that the primary schools are part of the army establishment, I would like to bring the position to the attention of the minister and his staff. We must consider the case of a soldier deserting his wife and family or his mother-in-law, become indigent and dependent on the municipality, and the same applies to hospital care. There is no hospital in this municipality and the sick must go to Kingston hospital, if they cannot pay the cost must be paid by the township. The problem now presents itself with regard to high schools. There is no secondary school in this community and education facilities must be arranged through the city of Kingston. I would just like to bring these things to the attention of the minister in the preparation of the amendment.

Hon. Mr. HARRIS: The amendment which I read through at the opening of this meeting does increase considerably the tax revenue of that municipality.

Mr. HANNA: May I ask one further question? I have here a file of a certain municipality which is claiming damages to its roads by military vehicles as far back as 1951. Will the amendment provide for any retroactive payment?

Hon. Mr. HARRIS: I think, Mr. Chairman, that we do not provide retroactive legislation unless there is good reason for it, and the present bill does not provide for it.

Mr. HANNA: Is there any possibility of this municipality having its claim paid by the Department of National Defence in respect of damage done in the past five or six years?

Hon. Mr. HARRIS: I will speak to my colleague with respect to that.

The CHAIRMAN: Hope springs eternal. Gentlemen, are there any further questions of a general nature before we look at the bill itself?

Mr. FLEMING: Can the minister say a word about the mechanics of administration?

Hon. Mr. HARRIS: In what respect?

Mr. FLEMING: How are they handled—just take a case and carry it through.

Mr. DEUTSCH: The usual procedure, Mr. Fleming, is that a municipality which feels it is entitled to a grant under the provisions of the Act makes an application on a form prescribed and sets out the information required. That information is then checked and if any questions of assessment arise with regard to federal property those are discussed by the staff of the Municipal Grants Branch with the representatives of the city, and finally agreement is reached on what is the proper assessment of federal property, and then a calculation is made according to the formula and a cheque is sent.

Mr. FLEMING: Do you pay by one annual cheque or by payments corresponding to payments made by the taxpayers of the municipality?

Mr. DEUTSCH: Usually in one annual cheque, although in the case of Ottawa there have been some interim payments made.

Mr. FLEMING: The first question you have to ask in a situation like that is the relation of the municipality to your four per cent formula—now, of course, to the two per cent formula. In a situation of that kind do you inquire into the total assessment of the municipality?

Mr. DEUTSCH: Yes sir, we do.

Mr. FLEMING: What check do you make on the assessment of the municipality in a case like that?

Mr. DEUTSCH: We just examine the assessment roll.

Mr. FLEMING: You really don't check into the municipal assessments—you in effect accept the municipal figures as to the total assessment and then go on to have your quarrel, or reach your agreement as the case may be with regard to the proper assessment of Crown owned property?

Mr. DEUTSCH: We try to find out the method used by the municipality in reaching its assessment and then we try to use that same principle and apply it to the federal property—in other words to make the assessments on the same basis.

Mr. FLEMING: You take account of the fact that there is quite a wide difference in the bases of assessment among the municipalities?

Mr. DEUTSCH: We recognize that, but in each municipality we are only concerned to see that the principles used in assessing federal property are similar to the principles used in assessing property in general.

Mr. FLEMING: It is quite clear you would have to apply the same basis in the assessments, but I was wondering if you concerned yourselves to any degree with the different bases of assessment among the different municipalities.

Mr. DEUTSCH: No, we do not.

Mr. Low: I would like to pursue further this matter of objective. Is the two per cent rate that has now been chosen and embodied in this bill related to any ultimate objective?

Hon. Mr. HARRIS: I think constitutionally, Mr. Chairman, each session of parliament is autonomous and sovereign, and one cannot say now what they might do.

Mr. Low: Am I to assume then Mr. Chairman that the objective will be set by the pressure put on the government by the municipalities of the country?

Hon. Mr. HARRIS: I do not recognize any of the communications which I have received as being pressures. I recognize them as being representations by public spirited persons and corporations for the purpose of trying to bring about the good government of Canada.

Mr. Low: Does the minister see any difficulty in the administration of the Act if the "floor" were to be set at a much lower figure than it is at present—let us say one percent or one half of one per cent, or even a grant in lieu of 100 per cent taxes?

Hon. Mr. HARRIS: I think Mr. Chairman that the answer is fairly obvious. We began this in 1950 which is only five years ago, and we are making this change in the light of a few years experience and one would expect that as experience is gained in the practice of these things it will become easier to administer the grants, and if it was decided to increase them it would be correspondingly easier to do so because of the experience in the past.

Mr. MACDONNELL: In arriving at your percentage—finding out whether a municipality is qualified—you take the municipal assessment, then when you have decided whether it is qualified or not you go in and make your own assessment. On what basis do you make that assessment?

Mr. DEUTSCH: What we do is this: when the application is received and they give us their information regarding the total assessment and the assessment they put on federal property we make sure that the principle used in assessing the federal property is comparable with and similar to the principles used in the assessment of the rest of the municipality.

Mr. MACDONNELL: That is in order to find out whether they are qualified. Now what is the next step?

Mr. DEUTSCH: The next step is to determine what the assessment on the federal property would be on the principles which have been applied generally in the municipality, and that assessment is taken as the basis for calculating the grant.

Mr. MACDONNELL: Would you mind going back and stating again how you act when you come to determine the assesment?

Mr. DEUTSCH: When we are satisfied that the assessment on the federal property is on the same principle as they have applied on property generally, and we have the figure of what the assessed value is, based on this principle, then the formula is applied and we pay the grant—in other words they are given a grant related to the amount which is in excess of the four per cent “floor”.

Mr. MACDONNELL: But supposing they had a rate of assessment which you regarded as highly inflated, and much higher than the next municipality?

Mr. DEUTSCH: That is accepted. We simply accept their principle of assessment and their tax rates.

Mr. FLEMING: The reason being that you are working on a percentage in that particular municipality?

Mr. DEUTSCH: Yes. It may have a low assessment and a high mill rate, or it may have a high assessment and a low mill rate.

The CHAIRMAN: What you are saying in effect is “what is good for the taxpayers of a municipality is good for the government. If they accept it we accept it”. I think it is commendable to do it that way.

Mr. APPLEWHAITE: You finish up by placing the Crown on exactly the same basis as any other taxpayer?

Mr. DEUTSCH: That is the attempt which is made—to try to assess federal property on a similar basis to that on which other property is being treated within that municipality.

The CHAIRMAN: Gentlemen, will you look at your copies of Bill No. 258, and in particular at clause one. Shall clause one carry?

Mr. FULTON: This is purely a problem of draftsmanship, but I wonder if an attempt could not be made to put the amendments in subclause 2 into clauses 6 and 7 instead of having them here because as far as I can make out they are applicable only to those two clauses. In trying to follow this Bill I found it extremely confusing and I think it would be clearer to follow the order I have suggested.

Hon. Mr. HARRIS: Obviously we try to put the definitions into the definition section but we will have a look at the suggestion.

Mr. MACDONNELL: It seems to me that these new words which are underlined might be extremely difficult to interpret:

without regard to any ornamental, decorative or non-functional features thereof.

I suppose one could imagine things like parks and places of that kind, but could we be given an illustration of what is meant by that phrase? Suppose that this building in which we are now sitting were under consideration.

Hon. Mr. HARRIS: That is, of course, dealt with separately. I think, Mr. Macdonnell that there is considerable law on this particular point, and that the municipalities have not been able to charge full rate of assessment on ornamental features on office buildings where the owners have laid out considerable money on expensive fronts and things of that kind which do not in fact increase their value for the purposes for which the buildings were intended. There was a recent case in the city of Montreal where the Sun Life Building was assessed on its value based on its usefulness plus the cost, so to speak, of its additional ornamentation, and the Privy Council ruled in favour of Sun Life that they could not be assessed in that manner. The purpose is to make it clear that in this, as in ordinary municipal assessments, special ornamental features will not be assessed at full value.

Mr. FLEMING: The minister retains the final right of decision to say what is ornamental or non-functional.

Hon. Mr. HARRIS: That is right.

Mr. APPLEWHAITE: This would make the National War Memorial non-assessable.

Hon. Mr. HARRIS: That is right.

Mr. FULTON: Paragraph 4 raises an interesting point. As I read the definition it looks as if the east block and the land on which it stands, as well as the west block and the land on which it stands within the grounds of the parliament buildings will not be excepted.

Hon. Mr. HARRIS: As to it being excepted, our parliament building is named in the opening words of that clause, as well as the lands comprising, or the lands on which we have the buildings, which extend from Wellington street through to the Ottawa river.

Mr. FULTON: Why are not the east block and the land on which it stands, and the west block and the land on which it stands not excepted?

Hon. Mr. HARRIS: We except the parliament building as such because of the nature of its use. Whereas the east and west blocks are normally offices of the government, this is a parliamentary establishment.

Mr. FULTON: Surely the complete set of parliament buildings should be treated as a whole, being the site of the government of Canada.

Hon. Mr. HARRIS: I do not think they include the east and west blocks as parliament. They are government offices.

Mr. FULTON: They were set aside as a site for the parliament buildings, using that word in its rough sense, long before Ottawa existed as a city comparable to what it is today.

Hon. Mr. HARRIS: They may appear to be generous to Ottawa then, in your light.

Mr. FLEMING: What municipal services does the city of Ottawa render to the buildings and lands on which the parliament building, and the east and west blocks are located?

Hon. Mr. HARRIS: Fire and garbage.

Mr. FLEMING: Fire and garbage?

Hon. Mr. HARRIS: And sewage.

Mr. FLEMING: Is there any difference in the municipal services rendered as between the east and west blocks on the one hand and the parliament building on the other?

Hon. Mr. HARRIS: No, I do not think that the purpose of the exception was the difference in services; it was the difference in the use of the building concerned. Let me put it this way: we do not feel that parliament should be included for assessment purposes in Ottawa because of the use of the building. On the other hand, we do not wish to exclude any more than is reasonable under the circumstances.

Mr. FLEMING: Is it regarded that the parliament building is being put to a non-functional use?

Hon. Mr. HARRIS: I do not think Ottawa would object if I said it was such a use.

Mr. FLEMING: Not ornamental or decorative anyway. There is no difference, I take it, in the municipal services rendered to the east and west blocks on the one hand, and to the parliament building on the other.

Hon. Mr. HARRIS: There is a distinction, but perhaps not a difference. I am told that for half the year there are fewer people in this building than in the other two building, but that is not my point. We have our protective services which we do not maintain in those other buildings. We do provide a protective service, but not of the type which I have here. The purpose of the exclusion here is simply because parliament, as such, functions here. The same thing is the case in the United Kingdom where the parliament buildings are exempt, but not the rooms used as offices.

Mr. FLEMING: There are no other differences as regards the municipal services?

Hon. Mr. HARRIS: Not for this purpose.

Mr. Low: Have we got to clause 1, sub-clause 3, Mr. Chairman?

The CHAIRMAN: Please proceed.

Mr. Low: With respect to Indian reserves being excluded in this clause, why was that done? What experience have you had with municipalities claiming grants in lieu of taxes?

Hon. Mr. HARRIS: Indian reserves are often situated in several municipalities, so that it is a little difficult to decide which municipality provides the best service or the most service for the government-owned property in the reserve. Therefore, it was decided to exclude them from the bill and to permit the Department of Citizenship and Immigration to make whatever arrangements they considered appropriate.

Mr. Low: That provision is being maintained.

Hon. Mr. HARRIS: Yes; the Department of Citizenship and Immigration will look after the grants and payments from now on.

The CHAIRMAN: Does clause 1 carry?

Carried.

1. (1) Paragraph (a) of section 2 of the *Municipal Grants Act*, chapter 182 of the Revised Statutes of Canada, 1952, is repealed and the following substituted therefor:

- (a) "accepted value" means the value that, in the "Accepted value," opinion of the Minister, would be attributed by a municipal taxing authority to federal property, without regard to any ornamental, decorative or non-functional features thereof, as the base for computing the amount of real estate tax applicable to that property if it were taxable property;

(2) Paragraph (c) of section 2 of the said Act is amended by deleting all the words therein preceding subparagraph (i) thereof and substituting the following therefor:

"Federal property."

(c) "federal property" means real property owned by Her Majesty in right of Canada but does not, except as provided in subsection (5) of section 6 and subsection (3) of section 7, include

(3) Subparagraph (ii) of paragraph (c) of section 2 of the said Act is repealed and the following substituted therefor:

(ii) a park, historical site, monument, museum, public library, art gallery or Indian reserve,

(4) Paragraph (c) of section 2 of the said Act is further amended by deleting the word "or" at the end of subparagraph (v) thereof and substituting therefor the following:

(v) except when otherwise prescribed by the Minister, real property owned by Her Majesty and leased to or occupied by a person from whom, by reason of his interest in or occupation of that real property, a municipal taxing authority may collect real estate tax, or

(vi) the building known as the Houses of Parliament, including the Peace Tower and the Parliamentary Library, and the lands in the City of Ottawa bounded as follows: on the north by the Ottawa River; on the south by Wellington Street; on the east by the centre line of the roadway immediately adjacent to and west of the building known as the East Block and the projection of that line to the Ottawa River and Wellington Street; and on the west by the centre line of the roadway immediately adjacent to and east of the building known as the West Block and the projection of that line to the Ottawa River and Wellington Street;

(5) Subparagraph (ii) of paragraph (c) of section 2 of the said Act is repealed and the following substituted therefor:

(ii) on persons who are lessees or occupiers of real property owned by any person exempt by law,

Mr. FLEMING: I have one question with respect to sub-clause 5 of clause 1. Is there any case where an owner of property which is leased to the Crown now pays more taxes than the Crown contributes?

Mr. DEUTSCH: Generally speaking, sir, if an owner leases property to the Crown, arrangements usually are made whereby the owner pays the taxes.

Mr. FLEMING: That is the normal arrangement?

Mr. DEUTSCH: Yes.

The CHAIRMAN: Does clause 1 carry?

Carried.

Does clause 2 carry?

Carried.

Does clause 3 carry?

Carried.

Does clause 4 carry?

Carried.

Does clause 5 carry?

5. Subsection (2) of section 7 of the said Act is repealed and the following substituted therefor:

"(2) No grant shall be made under subsection (1) in respect of any part of the cost of a local improvement that the municipality has received from any person or may recover from any person as a special assessment.

(3) For the purposes of this section, "federal property" includes any property referred to in subparagraphs (ii), (iii) and (vi) of paragraph (c) of section 2."

(3) The accepted value of Class A property in respect of which, for any tax year, a grant is made pursuant to section 6 or the municipality may recover or has received taxes from any person, in respect of that tax year, be excluded from the total accepted value of Class A property in the municipality in calculating a grant under this section.

(4) The Minister may, in determining the amount of a grant under this section, deduct from the amount that might otherwise be payable an amount that, in his opinion, represents the value of a service that is customarily furnished by the municipality to real property in the municipality and that Her Majesty does not accept in respect of Class A property in the municipality."

The purpose of this amendment is to provide for the following:

(1) a grant on the excess over two per cent instead of four per cent as at present;

(2) elimination of two reduction factors in the present grant formula;

(3) conformity with the new subsection (4) of section 6 (see clause 4); and

(4) deductions from grants to certain municipalities where the Crown provides to taxable properties in those municipalities services normally provided by them.

Mr. FULTON: I wonder if the minister would say a word with respect to the application of this new clause which, I understand, means that the federal grant will now be paid.

The CHAIRMAN: That is clause 6, Mr. Fulton.

Mr. FULTON: No, clause 5. I wonder if the minister would say a word as to the application of this clause.

Hon. Mr. HARRIS: You mean clause 5, sub-clause 3?

The CHAIRMAN: Clause 5, sub-clause 3 (iii). Is that it?

Mr. FLEMING: I have got one on the third.

The CHAIRMAN: Mr. Fleming has a question on (iii).

Mr. FLEMING: On (iii), about the provision for reduction of the value by the minister with respect to non-excepted service; could he give us an example of such a deduction?

Mr. DEUTSCH: With respect to some federal property we supply our own services; sometimes we have property where we supply our own fire protection; sometimes we have property in respect to which we supply even our own schooling, as is the case with some of the national defence property, in some cases, we supply our own police protection. In such cases appropriate deductions are made for the value of the services which we ourselves supply and which the municipalities do not have to supply.

Mr. FLEMING: I understood that, but I was looking for concrete examples of municipalities and amounts.

Mr. DEUTSCH: Well, Halifax.

Mr. FLEMING: Can you give us three or four typical examples?

Mr. DEUTSCH: In the case of Ottawa, for instance, we supply a certain number of parks in the city and we deduct, I think, \$67 thousand for the services rendered by the fact that we supply parks in the city of Ottawa.

Mr. FLEMING: Yes.

Mr. DEUTSCH: And at Halifax we have a fire-boat.

Mr. FLEMING: What do you deduct on that account?

Mr. DEUTSCH: I have not got the actual figure; but there are deductions made for the services rendered by our fire-boat.

Mr. FLEMING: Could you give us any other examples?

Mr. DEUTSCH: Yes. We supply a good deal of policing in Ottawa, such as the mounted police and our own police services to protect our own property, and I think we make a deduction of \$80 thousand for the police protection which we provide ourselves. Those are a few examples; at the Currie barracks in Calgary we provide our own schooling and make a deduction for that.

Mr. FLEMING: How much?

Mr. DEUTSCH: \$10 thousand, or \$15 thousand in that case.

Mr. FLEMING: Do you, in setting the deduction, try to make it correspond with your own expenditure in providing that service, or do you set it in the amount that the municipality might have to increase its expenditure in order to provide that service?

Mr. DEUTSCH: It is the latter; we try to make a deduction which would be equivalent to what it would cost the municipality if it had to provide this service.

Mr. WEAVER: Are we on clause 6 yet, Mr. Chairman?

The CHAIRMAN: No, we are on clause 5 at the moment.

Mr. FULTON: On clause 5, would you say a word as to the effect of this clause, and particularly with respect to the effect of the new sub-clause 3?

Hon. Mr. HARRIS: With respect to clause 5, I think the purpose is clear when you read the three clauses together. This is the clause which makes a grant to a municipality, but not extending the full amount of the cost of the local improvement which has been assessed against the federal treasury.

Sub-clause 3 which has been referred as clause 5, includes for the purposes of clause 7 the items in clause 2 which are not normally included, that is, parks, historical sites, monuments, museums, public libraries, art galleries, or Indian reserves, also real property owned by the Canadian National Railways or the government, or by a board or agency of the government. In other words, for the purpose of paying our proper share of the cost of local improvements, we include certain properties which are not included for other purposes of the Act.

Mr. FULTON: This clause as amended now provides that the cost of local improvements adjacent to federal property not now included can be paid to municipalities, notwithstanding the fact that the total federal property in that municipality does not exceed 2 per cent.

Hon. Mr. HARRIS: That is right.

Mr. FULTON: They stand on their own feet.

The CHAIRMAN: Does clause 5 carry?

Carried.

Clause 6.

Mr. MACDONNELL: The old section 8 of the Act said:

6. Section 8 of the said Act is repealed and the following substituted therefor:

"8. A grant may be made to the City of Ottawa in an amount that, in the opinion of the Minister, is a reasonable compensation for the expenses incurred by that City in furnishing services to the property referred to in subparagraph (vi) of paragraph (c) of section 2.

Can that principle be applied anywhere else?

Hon. Mr. HARRIS: I beg your pardon. I would like one minute.

Mr. MACDONNELL: With respect to the old section 8 which is mentioned in clause 6.

Hon. Mr. HARRIS: Yes.

Mr. MACDONNELL: Section 8 stipulated that a grant could be made to the city of Ottawa in an amount that, in the opinion of the minister, was a reasonable compensation for the expenses incurred by that city in furnishing services to the property referred to in sub-paragraph (vi) of paragraph C of section 2. Is that a special principle applied there and different from other municipalities?

Hon. Mr. HARRIS: Yes, it is, Mr. Chairman. That is the exception which is referred to in 2-C. We can make a special grant to Ottawa having in mind the property which has already been referred to partially in the preceding five, but defined in 2-C.

Mr. MACDONNELL: Wouldn't that be a reasonable principle to apply right across the board?

Hon. Mr. HARRIS: We have always had a special grant for the city of Ottawa since I came here in 1940, when it was \$100 thousand at that time.

Mr. MACDONNELL: Why does the principle not apply right across the board?

Hon. Mr. HARRIS: Because you will find that a considerable part of Ottawa consists of federal property, to an extent which does not obtain anywhere else.

Mr. MACDONNELL: I think we would accept that; but that does not seem necessarily to mean that you have to apply an entirely different principle. This is reasonable compensation.

Hon. Mr. HARRIS: I think the reason is that the grants to Ottawa have always been in a special class because of the situation here as the place of government. But I do not think you would want us to have an Act administered on the basis of this phrase with respect to other municipalities. I am sure you would be the first to object to unlimited authority in the minister to use that except in this case, where there have been some adjustments made.

The CHAIRMAN: Are you finished, Mr. Macdonnell?

Mr. MACDONNELL: I shall wait.

Mr. APPLEWHAITE: I think we are arguing at cross-purposes. Clause 8 to which Mr. Macdonnell referred, as I read it, specifically refers to two-six.

Hon. Mr. HARRIS: That is right.

Mr. APPLEWHAITE: Because these are the houses of parliament and this takes them out of the averaging clause. Therefore we have suggested that in this particular building, for certain reasons, they will not assess, but we will make, nevertheless a special compensation.

Hon. Mr. HARRIS: That is right.

Mr. WEAVER: I would like to ask a question in respect to the new clause 9. Would this clause cover such a place as the town of Churchill in Manitoba, which while in organized territory could not be considered to be a city, town, or village in the ordinary sense. The civilian population there is surrounded by federal property in the form of elevators; the Department of Transport has many stations there, and there is an army camp. The civilian population is in the centre without the services which normally would be accepted as normal in that part of Canada, and their tax sources are quite inadequate to take care of the situation.

Hon. Mr. HARRIS: We are studying the question of Churchill at the moment and trying to establish its actual status as a municipality or a rural municipality or whatever it might be. When that decision is made, it can be fitted into one of the designations in the Act, or if it cannot, it can be fitted into clause 9.

Mr. FLEMING: We are not through with this matter of whether we are at cross purposes, because if the matter was as simple as Mr. Applewhaite put it, there would be no occasion for the provision in clause 8, because the point about excepting the parliament buildings has already been dealt with in one-six. There is, as the minister acknowledged, a different approach to Ottawa. What is the reason for the difference in approach? Is it because of the particularly heavy concentration of federally-owned property in Ottawa, or is it because Ottawa is the capital of Canada?

Hon. Mr. HARRIS: Perhaps I have unintentionally misled the committee, but I was referring to the parliament building. Mr. Applewhaite set it out more clearly than I did. I said while we had excluded the parliament building from the base for assessment purposes, nevertheless we put in this clause to provide a reasonable amount in connection with such services which may be provided in connection with the use of that property.

Mr. FLEMING: You are referring to the right to make a grant, instead of an actual grant under the Act to compensate the city of Ottawa for its provision of municipal services for the parliament building.

Hon. Mr. HARRIS: That is right.

Mr. FLEMING: Is that the only use that can be made of the powers under clause 8 of the Act?

Hon. Mr. HARRIS: Clause 8 refers specifically to the grant to the city of Ottawa with respect to the expenditure incurred by that city in furnishing services to the specific property referred to in 6-C-2 which, in my reading of it, refers only to that property.

Mr. FLEMING: So the effect of clause 8 is based on the municipal services rendered by the city of Ottawa to the parliament building?

Hon. Mr. HARRIS: It does not say municipal services; it says: "furnishing services".

Mr. FLEMING: But a municipality can only provide municipal services.

Hon. Mr. HARRIS: Presumably, but I would not like to argue the case.

Mr. FLEMING: The whole effect of clause 8 is confined to this one property?

Hon. Mr. HARRIS: Yes!

The CHAIRMAN: There is an amendment to clause 8 which will not take anything from Ottawa, I hope.

Hon. Mr. HARRIS: It is somewhat lengthy but I will run through it quickly because it defines what I have already tried to say. The classes which are provided for in clause 6 remain as they are. They were numbered 8 and 9,

and are now renumbered 9 and 10. What I am about to read are the preceding sub-clauses.

8. (1) A grant may, pursuant to this section, be made to a municipality in respect of real property that is
- (a) owned by Her Majesty in right of Canada,
 - (b) leased to or occupied by a person who is an employee of Her Majesty in right of Canada or a member of the Canadian Forces, and
 - (c) is used by such person as a domestic establishment.

(2) Subject to sub-section (3) the amount of a grant made pursuant to this section shall not be greater than a fraction of the accepted value of property in respect of which a grant may be made under this section, such fraction to be determined as follows:

- (a) the numerator is the total amount of the real estate tax levied in the appropriate tax year, and
- (b) the denominator is the assessed value of all taxable property in the municipality.

(3) Where in preparing its budget for any tax year a municipality has not taken into account the amount of a grant that may be paid under this section the denominator of the fraction referred to in sub-section (2) shall be the assessed value of all taxable property and the accepted value of the property in respect of which a grant may be made under this section in the municipality.

(4) The Minister may, in determining the amount of a grant under this section, deduct from the amount that might otherwise be payable an amount that, in his opinion, represents the value of a service that would customarily be furnished by the municipality to the property in respect of which the grant is made and that Her Majesty does not accept in respect of that property.

(5) No grant shall be made under this section in respect of

- (a) property in respect of which a grant has been made under section 5,
- (b) property described in subparagraph (iv) of paragraph (c) of section 2, or
- (c) property in respect of which a real estate tax has been levied on a person described in paragraph (b) of subsection (1).

(6) In applying paragraph (a) of section 2 to this section, the words "federal property" shall be construed as meaning property in respect of which a grant may be made under this section.

Mr. FLEMING: It would be easier to understand if it were in Greek.

Hon. Mr. HARRIS: I am not expecting you to pass on it.

The CHAIRMAN: Can you tell us what it means in a sentence or two?

Mr. FULTON: Let us carry the rest of the Bill and have this later?

The CHAIRMAN: Let us hear from Mr. Deutsch.

Mr. DEUTSCH: This amendment in simple words would authorize the government to make grants in lieu of taxation on residential property owned by the Crown which is occupied or leased to employees of the Crown. That is what it means.

Mr. MACDONNELL: Couldn't you have said it in those words?

Mr. DEUTSCH: In respect to this property, residential property owned by the Crown in which its own employees reside, the grant will be made without the two per cent floor limitation; in other words, there will be a full payment. The grant will be made in respect to the full taxes on such residential property.

Mr. MACDONNELL: Are they taken into account in making up your general calculation as to the percentage, or are they to be treated separately?

Mr. DEUTSCH: They are to be treated separately.

Mr. FLEMING: Why is an exception made in this case, from the ordinary rule of the two per cent floor?

Mr. DEUTSCH: Because the government felt that in the case of residential property it is more synonymous with general residential property in a municipality. In many cases we enjoy complete and full services from the municipality in respect to that residential property, and in that case we should pay the equivalent of the full taxes.

The CHAIRMAN: It is a very good principle.

Mr. MACDONNELL: Does that go for living quarters for troops?

Mr. DEUTSCH: Yes sir.

Mr. FLEMING: Does this only apply to municipalities which meet the over-all requirements of the two per cent floor?

Mr. DEUTSCH: No.

Mr. FLEMING: Does it apply to every municipality in Canada.

Mr. DEUTSCH: Suppose you have a big city in which the only federal property is one residential unit. The taxes would be paid on that one residential quarter.

Mr. FLEMING: We were even told that the estimated cost of new schooling under the amended Act would be \$6 million a year. How much is estimated to be involved in this amendment?

Mr. DEUTSCH: If we include the Department of National Defence it may be that as much as \$1 million is involved in it.

Mr. FLEMING: That would increase the total, as provided by the bill, to \$7 million a year.

Mr. DEUTSCH: That is right.

Mr. FLEMING: Is there provision for pro-rating? Suppose a property is only occupied for a part of the year by the tenant who is an employee of the Crown, and for part of the year by a tenant who is not such an employee?

Mr. DEUTSCH: That would be a very unusual case because normally the residential quarters which the government owns are only occupied by its own employees. We do not go into the business of renting to people who are not our own employees. Are you referring to the case where the government acquires a property during the course of the year?

Mr. FLEMING: Yes, or it could be disposed of during the course of the year.

Mr. DEUTSCH: We have a provision whereby we can pay for the period during which we own it.

Mr. FLEMING: In the case I put to you there would be pro-rating?

Mr. FULTON: Do I understand the minister is not proposing to introduce an amendment here, and if so, any such amendment will be produced in the House?

The CHAIRMAN: No, we will have it here and it will be part of the recommendations on this bill.

Mr. MACDONNELL: Are we to meet again?

The CHAIRMAN: If you like. We have heard the Amendments and we will have it reprinted if you wish, but as the proposal before us involves an increased charge on the public all we can do is recommend the advisability of making the Amendments. We cannot make an Amendment that involves increase in expenditure.

Mr. HANNA: Would this amendment also apply to a group of houses built for national defence, and where national defence was also building the school?

Mr. DEUTSCH: Yes, but we would make a deduction for the services which we did not receive. If we supplied our own schooling, we would have to make a deduction equivalent to what it would cost the municipality to provide such service.

Mr. TUCKER: Should there not be a provision in this Act? For example, in Saskatchewan they tax the R.C.M.P. officers who are living in federal buildings in respect to the occupancy of those buildings, to cover the cost of schools, and so on. That is done to provide the municipality with taxes. In view of their levying taxes on those individuals, is there a provision whereby they do not get both?

Mr. DEUTSCH: Yes. This grant will be paid in lieu of taxes on residential property where the municipality does not tax the tenant. If the municipality taxes the tenant, then it would not get the grant in addition. It would only get it in the case where it did not tax the tenant.

Mr. TUCKER: I have another question on clause 9. Clause 6 indicates the exception in regard to municipalities by reason of the existence of federal property within or near their borders. I have in mind where a great part of a municipality has been taken over for camp purposes. That has happened in respect to the camp at Dundurn. As I understand it, the transitional grants are paid, but the municipality has debts of one kind or another for building schools and so on. Those transitional grants would seem to be very short, but they still have to pay for debts incurred for building schools, roads, and so on. Would this definition cover the cost of maintaining these schools? I take it that "incurred" means expenditures such as where they use roads or something like that. Shouldn't there be a provision made whereby when they take over a large part of a rural municipality, there should be some continuing grants in addition to the transitional grants? In that event some sort of principle should be applied, and there should be some sort of compensation as provided in clause 8 in respect to services provided by the municipality. In other words, I think that "incorporated" is broad enough in clause 9; it should be broad enough to take in compensation to the municipality not only for the expenditures which may be incurred on account of the property being there, but the cost of the service that is provided. Otherwise if it happens that the municipality is taken over for a camp, it is liable to put a tremendous burden on the remaining taxpayers, and I do not think that the transitional grants cover it. I bring that matter to the attention of the minister because a great part of the property at Dundurn has been taken over as a bombing range and a military camp. I inquired about the continuation of the transitional grants, and I learned that they would cease in the next few years.

Hon. Mr. HARRIS: We could conceive of where a property would be taken over to that extent, and there would be a larger burden left on the remaining property holders. If that should occur, we could consider it. But bear in mind that under the amendment which I just read, and which was so well illustrated by Mr. Deutsch, if, in this particular case at Dundurn, there had been houses established in the camp for quarters, the municipality would obtain taxes from them, which would compensate them for the land.

Mr. TUCKER: They get taxes to-day under the provincial law in Saskatchewan, if a person occupies a building on Crown land, even though he is an employee of the Crown, he must pay for the use of the schools and so on. Accounts are rendered and they try to collect them. I do not know that

they always succeed, but if the tenants do not pay taxes, they have to pay more heavily to send their children to school in cases where they make use of the high school and services like that. I would not be surprised if people living in those camps are paying the same as those who live in the municipality today.

Mr. DEUTSCH: Under the amendment which was read by the minister, if there are houses occupied by service personnel, and if the amendment is adopted, then the municipality would receive a grant in lieu of taxes on those houses. Now it may be that at the present time the municipality is trying to tax the tenant. In future that will not be necessary. The government would pay a grant in lieu of taxes to the municipality and the municipality would be relieved of the burden of chasing the individual and trying to collect.

Mr. TUCKER: It should deal with the situation there, because there is not a heavy population at the camp in the way of service personnel. It was taken over gradually for a bombing range. It is a matter of removing a substantial portion of the rural population, and members of the municipality from the tax roll, and that leaves a very heavy burden on the remainder. I would ask that the matter be considered, because I know it would hit a rural municipality in a different way than it would hit a city.

Hon. Mr. HARRIS: It arises in every case where the federal government expropriates land. There is bound to be a decrease in the income of the municipality to that extent. But part of the purpose of this Act is to overcome that difficulty, although not specifically in the manner you are indicating.

Mr. TUCKER: If they do go on and supply services, then I submit that the rural municipality should get just as much consideration as the city of Ottawa, where a rural municipality has a large part of its real estate taken for a camp, which is very extensive; I would suggest that there is a question of maintaining roads and paying off debts which have been incurred to build roads and so on. There should be a more generous scheme for transitional grants than there is today, because I understand that transitional grants will cease within two years; and when large areas are taken over I submit that some consideration should be given to it. I am not asking that the Bill be held up, but I urge that consideration be given to this matter.

Mr. HANNA: I wonder if the minister would explain how he proposes to deal with the problem where you have a large military camp moving into a rural municipality with thousands of troops and vehicles which cut up the rural and municipal roads? In the case I have in mind, a rural municipality has received nothing to date, although the camp has been there for well over five years.

Hon. Mr. HARRIS: Since the war, and during the war, we have made grants of various kinds for construction, or for payment by way of damage caused to roads under those conditions. I am sure it will hold in the case my hon. friend referred to.

Mr. HANNA: Where should a municipality apply to get payment for damages alleged to be done to its roads? So far it has drawn nothing.

Hon. Mr. HARRIS: So that there will be no suggestion of political influence, perhaps you should write your letter to the Department of Finance.

Mr. APPLEWHAITE: In answer to Mr. Tucker's first question, you said that where taxes were not paid, grants would be made by the Crown. That is right, in so far as we are making sure that the municipality does not collect twice. But suppose that situation should arise. We do not want the Crown, in the

right of the Dominion, to be saving money at the expense of its employees who are tenants. What provision is made to compensate the tenant who is paying municipal taxes?

Mr. DEUTSCH: What we hope to do if this amendment passes is this: we will probably write to the municipalities where we have such housing, and inform them that parliament has now passed this amendment, and we would inform them that if they accepted a grant in lieu of taxes, we are prepared to make such a grant. In that case it would not be necessary for them to tax the tenant. We hope the municipality would find it to be a more convenient way to proceed than by taxing the tenant.

Mr. FLEMING: Provided that the amendment is the same as you have in mind at the moment, or is an identical amendment; otherwise there is some problem.

Mr. DEUTSCH: The theory is that they would get an equivalent amount.

Mr. FLEMING: You would have to agree on the assessment in order to pay that amount in lieu of taxes.

Mr. DEUTSCH: We would have to be satisfied that the principles are the same.

Mr. APPLEWHAITE: You assume that the municipality will meet you. But supposing they do not?

Mr. DEUTSCH: In case the municipality does not, and it taxes the tenant, we wont pay twice; and they will have to collect from the tenant.

Mr. APPLEWHAITE: What will the appropriate government department do, adjust the tenant's rent?

Mr. DEUTSCH: Yes, in that case it would probably adjust his rent.

Mr. APPLEWHAITE: We cannot save money by expecting a group of employees to be taxed by the municipality.

Mr. DEUTSCH: No.

The CHAIRMAN: Does clause 6 carry?

Mr. RICHARDSON: In respect to draughtsmanship, according to section 2 of the amendment you will abolish class "B" property, leaving only class "A" property. Has the draughtsman, merely for ease of draughtsmanship retained class "A"? Otherwise, why do you use class "A"?

Hon. Mr. HARRIS: Just for ease in draughtsmanship.

Mr. RICHARDSON: In that event, should not clause 2 of the amendment also go on to say that sub-clauses 2 and 3 of the present section 3 are re-numbered?

Hon. Mr. HARRIS: It could. As a matter of fact, in the consolidation which I have before me, they are numbered "A" and "B".

The CHAIRMAN: Does clause 6 carry?

Carried.

Does clause 7 carry?

7. Notwithstanding section 3 of this Act, a grant in respect of a municipal tax year commencing before the 1st day of January, 1955, may be made under section 5 of the *Municipal Grants Act* as in force immediately before the commencement of this Act if an application therefor is made before the 1st day of July, 1955, but not otherwise, and no grant in respect of such a municipal tax year shall be made under section 5 of that Act as enacted by this Act.

Mr. FLEMING: I have one point on clause 7. There is a cut-off date of July 1st. There will be a considerable number of municipalities which will qualify for a grant under the new amendment which did not qualify before.

Some of them are remote municipalities. We hope that all of them are acquainted with the provisions of the Bill, but it may be that in some cases the municipal councils do not meet as often as they do in some of the urban municipalities, and news does not travel as fast. It seems to me that if this section is enacted in its present form, we will find a number of municipalities which are not aware that there is a cut-off date, and thereby they will be denied the benefit of this Bill. I suggest that the cut-off date should be lifted out of the section, or considerably advanced because I venture to say that the provisions of this Act will not be brought to the attention of very many municipalities in the group affected unless there are those who have their own solicitors, employed full time.

Hon. Mr. HARRIS: This applies of course only to those who would benefit under the Act as it was before this amendment. This does not apply to bar those who would now take benefits under the amendment. It applies to those who have had since 1950 in which to apply. The purpose of clause 7 is to put a cut-off date on that group.

Mr. FLEMING: We are clear then that there is no cut-off date in respect to those who are to be permitted to receive the benefits of the Act.

Hon. Mr. HARRIS: No. This is only for those who have had since 1950 within which to qualify for benefits under the Act.

Mr. FLEMING: The minister says there is no cut-off date in the Act with respect to other municipalities, those who have not qualified hitherto under the four per cent rule, but who may still qualify under the two per cent formula.

Hon. Mr. HARRIS: Quite so.

Mr. TUCKER: Could we not approve clause 6 with the amendment without the necessity of holding another meeting?

The CHAIRMAN: As a matter of fact, since the amendment is one which involves the expenditure of money, all we can do is to recommend it.

Mr. MACDONNELL: We can very well discuss it when it comes to the committee of the whole.

The CHAIRMAN: Shall clause 8 carry?

Carried.

Shall the title carry?

Carried.

Mr. MACDONNELL: We have been denied the opportunity to discuss the principles underlying the bill.

The CHAIRMAN: I began, this morning, by saying that you could discuss anything you wished to discuss. You are now at liberty to do that, and if we need another meeting, I will call one at your convenience in order for you to discuss it.

Mr. MACDONNELL: We have been denied an opportunity of getting the views of those who were most interested.

The CHAIRMAN: You had a motion and the committee passed judgment on it.

Mr. MACDONNELL: I know, but I want to repeat that it has been the play without Hamlet.

The CHAIRMAN: We too are concerned about paying out nearly \$7 million. We have been quite generous in recent years increasing the amounts from three to six and now to seven million.

Mr. FLEMING: It is a proper matter for comment that the people who have an interest in this would naturally attend to bring their values before a parliamentary group, that is, before a committee like this which is one of the select standing committees of the House, yet they have not had that opportunity.

Mr. CRESTOHL: I think that Mr. Macdonnell's statement is purely academic.

The CHAIRMAN: Shall the title carry?

Carried.

Shall the Bill carry?

Carried.

Shall I report the Bill without amendment and make a recommendation to the House on the proposed amendment to Clause 6?

Carried.

Thank you very much. The committee is adjourned to the call of the chair.

Second Session—Twenty-second Parliament

1955

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STANDING COMMITTEE

ON

BANKING AND COMMERCE

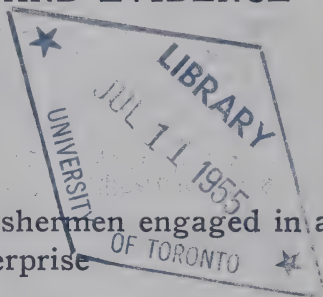
Chairman: DAVID A. CROLL, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

BILL No. 452

An Act respecting Loans to assist Fishermen engaged in a
Primary Fishing Enterprise



WEDNESDAY, JUNE 22, 1955

THURSDAY, JUNE 23, 1955

WITNESSES:

Honourable Senator C. Vaillancourt; Mr. W. B. Melvin, National Secretary of the National Co-operative Union of Canada; Mr. L. Bérubé, Chairman, National Co-operative Fisheries Association; Mr. C. Gordon Smith, Canadian Manager, Credit Union National Association; Mr. E. Legere, Director of *La Fédération des Caisses Populaires Acadiennes*; Mr. A. Laidlaw, Associate Director, Extension Department, St. Francis Xavier University and representing the United Maritime Fishermen of Halifax; Mr. R. J. McMaster, representing the British Columbia Credit Union League.

EDMOND CLÓUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1955.

STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: David A. Croll, Esq.
and Messrs.

| | | |
|-------------------------------|-----------------------------------|-----------------------------------|
| Anderson | Fraser (<i>Peterborough</i>) | Mitchell (<i>London</i>) |
| Applewhaite | Fraser (<i>St. John's East</i>) | Monteith |
| Arsenault | Fulton | Nickle |
| Ashbourne | Gagnon | Noseworthy |
| Balcom | Hanna | Pallett |
| Benidickson | Hellyer | Philpott |
| Bennett (<i>Grey North</i>) | Henderson | Picard |
| Blackmore | Huffman | Pouliot |
| Cameron (<i>Nanaimo</i>) | Hunter | Quelch |
| Cannon | Johnson (<i>Kindersley</i>) | Richardson |
| Cardin | Low | Robichaud |
| Crestohl | Macdonnell | Rouleau |
| Croll | MacEachen | Stewart (<i>Winnipeg North</i>) |
| Dufresne | Macnaughton | Tucker |
| Dumas | Matheson | Viau |
| Fleming | Michener | Weaver |
| Follwell | | |

R. J. Gratrix,
Clerk of the Committee.

ORDER OF REFERENCE

TUESDAY, June 14, 1955.

Ordered,—That the following Bill be referred to the said Committee:

Bill No. 452, An Act respecting Loans to assist Fishermen engaged in a Primary Fishing Enterprise.

Attest.

LEON J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

THURSDAY, June 23, 1955.

The Standing Committee on Banking and Commerce begs leave to present the following as its

SEVENTH REPORT

Your Committee has considered Bill No. 452, An Act respecting Loans to assist Fishermen engaged in a Primary Fishing Enterprise, and has agreed to report the said Bill with the following amendments:

(1) by adding immediately after subclause (i) of Clause 2 the following new subclause (j):

(j) "lender" means

(i) a bank, and

(ii) a credit union, caisse populaire, or other co-operative credit society designated by the Minister as a lender for the purposes of this Act;

(2) by relettering subclauses (j), (k), (l) and (m) as (k), (l), (m) and (n) respectively.

(3) by deleting the word "bank" wherever it appears in clauses 3, 4, 6(a), 7, 9, 10 and 11 and substituting therefor the word "lender".

Your Committee considered certain proposed amendments to subclause (b) of Clause 6 of the said Bill but as these amendments contemplate a greater liability than is set out in the Bill and as a result thereof a possible increased charge on the public, your Committee is of the opinion that it has no option under the rules of the House and the terms of its Order of Reference but to report the said subclause without amendment. Your Committee would, however, recommend that the Government give consideration to the advisability of introducing the following amendments to subclause (b) of Clause 6 of Bill No. 452.

(b) to make any payment

(i) to a bank in respect of loss sustained by it as a result of a guaranteed loan made after the aggregate principal amount of the guaranteed loans made by all banks exceeds ten million dollars, or

(ii) to any other lender in respect of loss sustained by it as a result of a guaranteed loan made after the aggregate principal amount of the guaranteed loans made by all such lenders exceeds ten million dollars.

A copy of the evidence adduced is appended hereto.

All of which is respectfully submitted.

DAVID A. CROLL,
Chairman.

(Note: The Sixth Report dealt with Private Bills in respect of which verbatim evidence was not recorded.)

MINUTES OF PROCEEDINGS

Room 277;

WEDNESDAY, June 22, 1955.

The Standing Committee on Banking and Commerce met at 10.00 o'clock a.m. this day. Mr. David A. Croll, the Chairman, presided.

Members present: Messrs. Anderson, Applewhaite, Arsenault, Ashbourne, Balcom, Benidickson, Bennett (*Grey North*), Cameron (*Nanaimo*), Fraser (*Peterborough*), Fraser (*St. John's East*), Henderson, Huffman, Hunter, MacEachen, Michener, Monteith, Philpott, Quelch, Richardson, Robichaud, Tucker and Weaver.

The following Members being Members of the Standing Committee on Marine and Fisheries but not Members of the Standing Committee on Banking and Commerce were also present: Messrs. Barnett, Bell, Bryce, Kirk (*Antigonish-Guysborough*) and Nowlan.

In attendance: Honourable Senator Cyrille Vaillancourt, and

From the Department of Fisheries: The Honourable James Sinclair, Minister of Fisheries, and Messrs. G. R. Clark, Deputy Minister, S. V. Ozere, Assistant Deputy Minister, I. S. McArthur, Chairman, Fisheries Prices Support Board, Alistair Fraser, Executive Assistant to the Minister.

From the Department of Finance: Messrs. J. F. Parkinson, Director, Economic Policy Division, and E. A. Oestreicher, an officer of the Economic Policy Division.

From Credit Unions and Co-operatives: Mr. R. J. MacMullin of Antigonish, N.S., Managing Director, Nova Scotia Credit Union League; Mr. Alexander Laidlaw, Associate Director, Extension Department, St. Francis Xavier University, Antigonish, N.S., and representing the United Maritime Fishermen of Halifax, N.S.; Mr. Euclide Légère of Caraquet, N.B., representing *La Fédération des Caisses Populaires Acadiennes*; Mr. Louis Bérubé of Sainte-Anne de la Pocatière, P.Q., Chairman, National Co-operative Fisheries Association; Mr. W. Breen Melvin of Ottawa, National Secretary, and Mr. D. Gordon Blair of Ottawa, Solicitor for the National Co-operative Union of Canada; Mr. R. J. McMaster of Vancouver, B.C., representing the British Columbia Credit Union League; Mr. C. Gordon Smith of Hamilton, Ontario, Canadian Manager, Credit Union National Association, and Mr. C. B. Neopole, Assistant General Manager of The Royal Bank of Canada, and Mr. H. L. Robson, Assistant Secretary, The Canadian Bankers' Association.

The Committee commenced consideration of Bill No. 452, An Act respecting Loans to assist Fishermen engaged in a Primary Fishing Enterprise.

On motion of Mr. Ashbourne,

Ordered,—That the Committee print 750 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence in respect of Bill No. 452.

The Chairman laid before the Committee the following documents:

1. Representations received by the Honourable James Sinclair, Minister of Fisheries, from the following organizations:

1. Prince Rupert Fishermen's Co-operative Association, Prince Rupert, B.C.,

2. Gulf and Fraser Fishermen's Credit Union, Vancouver, B.C.,
3. Prince Rupert Fishermen's Credit Union, Cow Bay, B.C. and Prince Rupert, B.C.

Ordered,—That the said documents be printed as an appendix to this day's evidence. (*See Appendix "A"*)

The Chairman also laid on the Table briefs from the following organizations:

1. Credit Union League of the Province of British Columbia. (*See Appendix "B"*)
2. La Fédération des Caisses Populaires Acadiennes. (*See Appendix "C"*)
3. National Co-operative Fisheries Association. (*See Appendix "D"*)
4. Nova Scotia Credit Union League. (*See Appendix "E"*)

Ordered,—That the said documents be printed as appendices to this day's evidence.

The above documents appear as Appendix "B", "C", "D" and "E" respectively.

At 10.15 o'clock a.m., the Committee adjourned to meet again after the "Orders of the Day" were called in the House.

At 11.25 o'clock a.m., a quorum having again assembled, the Committee resumed consideration of Bill No. 452, An Act respecting Loans to assist Fishermen engaged in a Primary Fishing Enterprise. Mr. David A. Croll, the Chairman, presided.

Members present: Messrs. Anderson, Applewhaite, Arsenault, Ashbourne, Balcom, Benidickson, Bennett (*Grey North*), Cameron (*Nanaimo*), Cardin, Fraser (*Peterborough*), Fraser (*St. John's East*), Henderson, Huffman, Hunter, Macdonnell (*Greenwood*), MacEachen, Michener, Mitchell (*London*), Monteith, Philpott, Quelch, Richardson, Robichaud, Tucker and Weaver.

The following Members being Members of the Standing Committee on Marine and Fisheries but not Members of the Standing Committee on Banking and Commerce were also present: Messrs. Barnett, Bell, Bryce, Kirk (*Antigonish-Guysborough*) and Nowlan.

In attendance: The same as at the previous sitting.

Senator Vaillancourt called, made a statement on the growth of *Les Caisses Populaires* in the Province of Quebec, examined thereon and was retired.

Mr. Melvin called, introduced Mr. Bérubé, and was retired.

Mr. Bérubé called, made a statement in support of the brief filed by the National Co-operative Fisheries Association (*See Appendix "D"*), was questioned thereon and retired.

Mr. Smith called, introduced Mr. MacMillan, Mr. Légère and Mr. McMaster, and was retired.

Mr. MacMullin called, made a statement in support of the brief filed on behalf of the Nova Scotia Credit Union League (*See Appendix "E"*), was questioned thereon and retired.

Mr. Légère called, made a statement in support of the brief filed by *La Fédération des Caisses Populaires Acadiennes* of the Province of New Brunswick (*See Appendix "C"*), was questioned thereon and retired.

Mr. Laidlaw called, made a statement in support of the brief presented by the National Co-operative Fisheries Association (*See Appendix "D"*), and also spoke on behalf of the United Maritime Fishermen of Halifax, N.S., was questioned thereon and retired.

At 1.00 o'clock p.m., the examination of witnesses still continuing, the Committee adjourned to meet again at 3.00 o'clock p.m. this day.

AFTERNOON SITTING

Room 277,
WEDNESDAY, June 22, 1955.

The Committee resumed at 3.00 o'clock p.m. Mr. David A. Croll, the Chairman, presided.

Members present: Messrs. Anderson, Applewhaite, Arsenault, Ashbourne, Balcom, Benidickson, Cameron (*Nanaimo*), Cardin, Dumas, Fleming, Fraser (*Peterborough*), Fraser (*St. John's East*), Henderson, Huffman, Hunter, Macdonnell (*Greenwood*), MacEachen, Michener, Monteith, Pallett, Philpott, Pouliot, Quelch, Richardson, Robichaud and Tucker.

The following Members being Members of the Standing Committee on Marine and Fisheries but not Members of the Standing Committee on Banking and Commerce were also present: Messrs. Barnett, Bryce, Kirk (*Antigonish-Guysborough*) and Nowlan.

In attendance: Same as at the morning sitting.

The Committee resumed consideration of Bill No. 452, An Act respecting Loans to assist Fishermen engaged in a Primary Fishing Enterprise.

Mr. McMaster called, made a statement in support of the brief filed on behalf of the Credit Union League of the Province of British Columbia (*See Appendix "B"*), examined thereon and was retired.

The Committee then commenced a clause by clause consideration of Bill No. 452.

Thereupon Mr. Applewhaite laid upon the Table the following suggested amendments:

That Clause 2 of the Fishermen's Improvement Loans Act be amended by adding thereto as Section (i)1 "lending institution" means a loan, insurance, trust or other company or corporation, trustee of trust funds, building society, credit union, or other cooperative credit society, authorized to lend money on the security of real or immovable property, which shall be designated by the Governor-in-Council as a lending institution authorized to make loans under this Act.

That there be inserted after the word "bank" wherever it appears in Sections 3, 4, 6, 7, 9, 10 and 11 of the said Act, the words "or lending institution".

After discussion and on the suggestion of Mr. Arsenault the words *caisse populaire* were inserted in the suggested amendment after the words "credit union".

After further discussion it was agreed that the said suggested amendments be submitted to the Department of Justice for drafting.

At 4.15 o'clock p.m., the Committee adjourned to meet again at 10.00 o'clock a.m., Thursday, June 23, 1955.

R. J. Gratrix,
Clerk of the Committee.

Room 277,
THURSDAY, June 23, 1955.

The Standing Committee on Banking and Commerce met at 10.00 o'clock a.m. this day. Mr. David A. Croll, the Chairman, presided.

Members present: Messrs. Applewhaite, Arsenault, Ashbourne, Balcom, Benidickson, Cameron (*Nanaimo*), Cardin, Dumas, Fleming, Fraser (*Peterborough*), Huffman, Macdonnell (*Greenwood*), Monteith, Pallett, Quelch, Richardson, Robichaud and Tucker.

The following Members being Members of the Standing Committee on Marine and Fisheries but not Members of the Standing Committee on Banking and Commerce were also present: Messrs. Barnett and Kirk (*Antigonish-Guysborough*).

In attendance: From the Department of Fisheries: Mr. G. R. Clark, Deputy Minister, and Mr. I. S. McArthur, Chairman, Fisheries Prices Support Board.

From the Department of Finance: Mr. J. F. Parkinson, Director, and Mr. E. A. Oestreicher, an officer of the Economic Policy Division.

From Credit Unions and Co-operatives: Mr. R. J. McMaster of Vancouver, B.C., representing the British Columbia Credit Union League; Mr. W. Breen Melvin of Ottawa, National Secretary, and Mr. D. Gordon Blair of Ottawa, Solicitor for the National Co-operative Union of Canada, and

Mr. C. B. Neapole, Assistant General Manager of The Royal Bank of Canada, and Mr. H. L. Robson, Assistant Secretary of The Canadian Bankers' Association.

The Committee resumed the clause by clause consideration of Bill No. 452, An Act respecting Loans to assist Fishermen engaged in a Primary Fishing Enterprise.

The Chairman laid before the Committee a redraft of the suggested amendments tabled by Mr. Applewhaite at the previous sitting and a further suggested amendment by the Department of Finance.

Clause 1 was considered and adopted.

On Clause 2:

Mr. Applewhaite moved

That Clause 2 of the said Bill be amended by adding immediately after subclause (i) the following new subclause (j):

(j) "*lender*" means

(i) a bank, and

(ii) a credit union, *caisse populaire*, or other co-operative credit society designated by the Minister as a lender for the purposes of this Act;

and by relettering subclauses (j), (k), (l) and (m) as (k), (l), (m) and (n) respectively.

After discussion, and the question having been put, the said amendment was resolved in the affirmative.

Thereupon Mr. Applewhaite moved

That the word "bank" wherever it appears in clauses 3, 4, 6(a), 7, 9, 10 and 11 be deleted and the word *lender* substituted therefor.

After discussion, the question having been put, the said amendments were adopted.

Clauses 3 and 4 were considered as amended and adopted.

Clause 5 was considered and adopted *on division*.

Subclause (a) of Clause 6 was considered as amended and adopted.

On subclause (b) of Clause 6, the following suggested amendment was laid before the Committee:

(b) to make any payment

(i) to a bank in respect of loss sustained by it as a result of a guaranteed loan made after the aggregate principal amount of the guaranteed loans made by all banks exceeds ten million dollars, or

(ii) to any other lender in respect of loss sustained by it as a result of a guaranteed loan made after the aggregate principal amount of the guaranteed loans made by all such lenders exceeds ten million dollars.

Thereupon the Chairman informed the Committee that as the amendment contemplated a greater liability than that set out in the Bill and as a result thereof might involve a possible increased charge on the public, the Committee was not competent to make the amendments but would make a recommendation to that effect in its Report to the House.

Clause 6(b) was adopted.

Clause 7 was considered as amended and adopted.

Clause 8 was considered and adopted.

Clauses 9, 10 and 11 were severally considered as amended and adopted.

Clauses 12, 13, 14 and the Title were severally considered and adopted.

The Bill as amended was considered and adopted and the Chairman ordered to report the said Bill to the House as amended, with the required recommendation in respect of subclause (b) of Clause 6.

At 10.30 o'clock a.m., the Committee adjourned to meet again at the call of the Chair.

R. J. Gratrix,
Clerk of the Committee.

EVIDENCE

JUNE 22nd, 1955,
10:00 a.m.

The CHAIRMAN: Gentlemen, the meeting is now called to order.

Mr. ASHBOURNE: Mr. Chairman, I beg to move that the committee print 750 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence in respect of Bill No. 452, an Act respecting Loans to assist Fishermen engaged in a Primary Fishing Enterprise.

The CHAIRMAN: Is that satisfactory, gentlemen?

Agreed.

I just want to put on the record some matters which you already have and some which you have not. All of you have received copies of the letters which were sent to the Hon. James Sinclair by the Prince Rupert Fishermen's Co-operative Association, by the Gulf and Fraser Fishermen's Credit Union, and by the Prince Rupert Fishermen's Credit Union. You have copies of them which were delivered to you.

(See Appendix "A")

There was a wire received this morning from Halifax addressed to the Hon. James Sinclair, Minister of Fisheries, Ottawa, which reads as follows:

June 17,
HALIFAX, N.S.

Hon. James Sinclair, Minister of Fisheries,
Ottawa.

Many thanks information your wire re fisheries improvement loan bill meeting stop Impossible attend personally but Alexander Laidlaw St. FX university will represent United Maritime Fishermen Ltd and its members stop Rod MacMullin manager Nova Scotia Credit Union League will represent that organization and credit unions appreciate keenly your interests this matter.

United Maritime Fishermen Ltd.
J. H. MacKichan General Mgr.

There was a wire addressed to Mr. D. Gordon Blair, solicitor in this matter, from the Regina Association which reads as follows:

REGINA, Sask.
21 123 5p

D. Gordon Blair
c/o Herridge Tolmie Gray Coyne & Blair
140 Wellington St., Ottawa, Ont.

Authorize to state to committee and government officials credit union league of Saskatchewan supports request to have credit unions and societies included in legislation having in mind similar provision

in farm loan legislation when required and provided federal control and licensing of local credit unions not involved.

W. B. Francis.

I have a brief here this morning from the Credit Union League of the province of British Columbia.

I also have the brief from *La Federation des Caisses Populaires Acadiennes*.

I have the brief from the National Co-Operative Fisheries Association of the Co-Operative Union of Canada.

And finally a brief from the Nova Scotia Credit Union League.

(For Briefs see Appendices "B", "C", "D" and "E")

These four briefs, with your permission, I shall have placed on the record and they will now be passed out to you for your perusal and study so that when we come back here, after the orders of the day, we will hear the various spokesmen in connection with the briefs which I just mentioned. I have asked them not to be too long. We will hear them and then deal with the bill.

Has anyone any other suggestions? Senator Vaillancourt has asked to be heard on behalf of the *La Federation des Caisses Populaires Acadiennes*. I said that we would hear him first. There are four witnesses who wish to speak to the briefs. Does that meet with your approval?

Agreed.

I must apologize to you for not being able to carry on our business this morning, but it was due to something beyond my scope. I really do not call caucuses for the Conservative party, as most of you know. So the only thing we can do for the moment—or the thing which you can do in the time at your disposal is to read through these briefs. We will come back immediately after the orders of the day.

The meeting now stands adjourned until that time.

—Upon resuming.

The CHAIRMAN: Gentlemen, I see a quorum.

Mr. ASHBOURNE: Mr. Chairman, knowing the great interest that the members of the Standing Committee on Marine and Fisheries are taking in this bill, I, as chairman of that committee, would like to say that after consultation with you I took the liberty of writing to the members of that committee advising them of the meeting this morning. After hearing the witnesses and the briefs, I think that an opportunity might be given to hearing any member of the Marine and Fisheries committee if any member would like to be heard in this regard. I assume that such an opportunity would be afforded to them. If necessary, I could make a formal motion to that effect.

The CHAIRMAN: They will be heard.

Our first witness is Senator Vaillancourt.

Hon. Mr. VAILLANCOURT: Mr. Chairman, I must say that our *Caisses Populaires* in Quebec have helped Gaspesian fishermen for over twenty-five years. At present *Caisses Populaires* and Credit Unions in Canada—*Caisses Populaires* and Credit Unions must not be confused—have about \$450 million assets and from this total of assets our *Caisses Populaires* in Quebec have \$375 million. I must add that our *Caisses Populaires* in Quebec have administered with success for the past twenty-five years the fishermen's loan. Moreover, in Magdalen Islands, in Gaspesia and on the North Shore, we have three inspectors living in these areas and attending especially to the fishermen's loan.

We have also a life insurance for the protection of the loans and the protection of the fishermen's families. In the event of the death of the fisherman before his reimbursement of all his loan, the insurance pays the *Caisse Populaire* the balance of the loan still due. Then we have an insurance against fire and losses on sea.

Furthermore, may I add in conclusion, that our *Caisses Populaires* have always been and are still better equipped than the chartered banks to supervise the negotiation of loans on a sound basis to fishermen. We have already acquired a long experience in that field.

Secondly, our branches are spread over areas not covered by branches of chartered banks; and thirdly, we are in a position to exercise a much closer and more effective control of the loans granted as we have sources of information, through our organization, that are not always available to chartered banks.

That is my experience for 25 years in the fishing countries of Gaspesia, Magdalen, and the North Shore district. When we organized this system of loaning we placed special inspectors in various places to supervise the loans. We have for 25 years, millions and millions of dollars out in loans and with the cooperation of the province of Quebec we have loans not over \$800 on which the province pay 4 per cent interest and the fishermen pay the balance. We have in Quebec central organizations and all the loans are directed to our central organizations if necessary. For the last 25 years our losses were practically not more than one fortieth of one per cent. That is our experience.

The first investigation we do is into the moral character of the man. That is the first and the best guarantee.

The CHAIRMAN: Members of the committee have a brief on the subject. If there are no questions I will thank Senator Vaillancourt.

Hon. Mr. SINCLAIR: Is that last rate of one fortieth of one per cent that you spoke of for fishermen, or for everybody?

Hon. Mr. VAILLANCOURT: For fishermen.

The CHAIRMAN: The next witness is Mr. Bérubé. I will ask Mr. Melvin, National Secretary of the Cooperative Union of Canada, to introduce him.

Mr. W. B. MELVIN: Mr. Chairman and members of the committee, it is a pleasure for me to introduce Mr. Louis Berube who is appearing before you this morning as chairman of the National Cooperative Fishermen Association of Ste-Anne de la Pocatière, Province of Quebec, which is a group of fisheries cooperatives of this country in every province except one, with the assistance of the Cooperative Union of Canada. Mr. Bérubé has for a long while been associated with fisheries development in the Gaspé and Quebec generally, and in the Martimes as well.

Mr. BÉRUBÉ: I am glad to be able to address the committee for a few minutes on behalf of this cause and I thank you, Mr. Chairman and members of the committee, for this opportunity to put the National Cooperative Fishermen's Association behind the *Caisse Populaire* and Credit Unions on this occasion.

To summarize the brief which you have had, let me say that the need of credit has always been there for the fishermen. It was served very largely by the old fishing companies in the good old times, but during that period the old fishing companies could afford it because they were enjoying a monopolistic price for their fish and for the goods they sold to the fishermen. These conditions no longer exist, and the fishing companies, the fish processors and merchants, have to face competition and it is no longer possible for them to carry on in the old way. Besides, we are facing the problem of mechanizing and modernizing the fisheries which calls for more credit. The banks are good lending institutions and I would not like anything in the brief which we offer

to be considered as a fight with the banks or anything like that. But the banks were never very interested in fishing communities nor would they lend to the fishermen because it was not a sound business proposition for them to do so. Left to themselves the fishermen did organize their own Credit Unions. In fact, the first Credit Union in a fishing community was organized in 1905 at Maria in the County of Bonaventure, and in 1932 in the full tide of the big depression we had 14 credit unions in the fishing communities of the Gaspé coast. Now, in the province of Quebec, we have only 37 Credit Unions in the fishing communities on account of the fact that we have only 37 fishing communities.

The situation is the same in New Brunswick and the representative of New Brunswick will give you similar figures. So at the present time there are Credit Unions and *Caisses Populaires* in the big majority of the fishing communities of Canada. These were created, built and operated by the fishermen themselves on their own behalf. This contemplated legislation will go to benefit the Credit Unions and the *Caisses Populaires* and assist them in helping the fisheries. We have nothing against the banks, but as representing the fishermen I would like to see the Credit Unions and the *Caisses Populaires* enjoying the same privileges as they do. I am not against competition, but I am very much in favour of equality of opportunity. Now one of the biggest handicaps would be that some of these Credit Unions or *Caisses Populaires* are small, but as Senator Vaillancourt has said they have proved their worth as lending agencies. I have the official record with me for 1951—taken from the Department of Fisheries—and in 11 years of operation they have lent \$1,300,000 to fishermen of the province of Quebec and out of this the exact figure of losses written off—Senator Vaillancourt gave it out of his memory, but I have it from the books—is \$710.99, or 5 cents per \$100 loaned. It may appear that in giving those figures I am speaking without due respect for modesty, but I have no reason to believe that the fishermen of the other provinces would not show as good a record if you inquired into it.

The CHAIRMAN: If there are any questions to be asked of the witness, this is the opportunity. I have never met the gentleman before, but I am told he is very knowledgeable on this subject.

Mr. APPLEWHAITE: Has it been the practice of the Credit Unions to which you refer when making loans to fishermen, to insure their floating assets as protection against the loss?

Mr. BÉRUBÉ: Perhaps Senator Vaillancourt could answer that question—he is a much bigger man than myself in the *Caisse Populaire*.

Hon. Mr. VAILLANCOURT: Would you please repeat the question?

Mr. APPLEWHAITE: I asked whether it has been the practice of the Credit Unions to insure the floating assets of fishermen to whom they make loans?

Hon. Mr. VAILLANCOURT: Every borrower has to have life insurance, fire insurance and so on—I know that in Quebec the control is made by the central organization.

Mr. APPLEWHAITE: I was asking whether you insure the fishermen's boats and gear—floating gear—which is subject to loss by storm?

Hon. Mr. VAILLANCOURT: Yes, it is all insured against any loss.

The CHAIRMAN: If there are no further questions—

Mr. TUCKER: I have read the statement and it seems to me that the Credit Unions have done a marvellous job in financing the fishermen. I have the impression that there is a need for greater credit and larger quantities of credit in order to provide the fishermen with bigger and better equipment. Is that correct—that the fishermen now really need credit in order to modernize their industry?

Mr. BÉRUBÉ: That is what I believe.

Mr. TUCKER: I take it it would assist the Credit Unions in meeting that need if they got the guarantee which the banks are supposed to get in this bill?

Mr. BÉRUBÉ: I am sorry, I did not get that.

Mr. TUCKER: As I understand your representations you would like to get a partial government guarantee under this bill so that you could do a better job in meeting that increased demand for credit.

Mr. BÉRUBÉ: Yes.

Mr. TUCKER: You cannot meet the need to the extent you would like to meet it without this partial government guarantee is that correct? Can you meet it without the guarantee?

Mr. BÉRUBÉ: What I understand is that the government guarantee would have many effects, one of which would be to encourage depositors so that the Credit Unions would get enough capital to lend.

Mr. TUCKER: Would you feel that this government guarantee would enable the Credit Unions to do a much better job than they would otherwise be able to do in continuing to meet the requirements of the fishermen?

Mr. BÉRUBÉ: That is my belief.

Mr. TUCKER: It would put the Credit Unions in a better position to meet the demand for credit?

Mr. BÉRUBÉ: Yes.

Mr. CAMERON (*Nanaimo*): I wonder if you could give us any idea of the proportion of the banking business done by the Credit Union with fishermen as opposed to the business done with other interests in your area?

Mr. BÉRUBÉ: I could not give you any figure on that. Maybe Senator Vaillancourt could, but he would have to risk a figure.

Mr. CAMERON (*Nanaimo*): Could I put it this way: have you any idea of the proportion of fishermen who deal exclusively with Credit Unions for their financing at the present time?

Mr. BÉRUBÉ: Maybe an example will help. On the Gaspé coast there is a stretch of close to 100 miles with no banks at all and there are credit unions in all the fishing communities. Draw your own conclusions.

Mr. ROBICHAUD: Mr. Chairman, my question is pretty much in line with that asked by Mr. Cameron. The purpose of this bill is to enable fishermen to obtain loans. Under the present terms of the bill it is a loan from a bank under terms and conditions which will make it easier to finance the purchase, construction and repair of specified capital items and improvements for use by such fishermen in the pursuit of their occupation. As Mr. Bérubé has just indicated there are a lot of communities where fishermen have never been in contact with a bank. Is that not true?

Mr. BÉRUBÉ: They might have some contact. For instance I suppose they have signed a note and the note finishes in the bank, but it does not mean that they are customers of the bank.

Mr. ROBICHAUD: Is it not true that in many fishing centers whether on the Gaspé coast or in New Brunswick that in the last 20 years, it happened?

Mr. BÉRUBÉ: They did not deal with the banks.

Mr. ROBICHAUD: Yes, and they dealt with credit unions?

Mr. BÉRUBÉ: That is right.

Mr. ROBICHAUD: And the credit unions have been helping the fishermen in periods of need?

Mr. BÉRUBÉ: Yes.

Mr. ROBICHAUD: And it would only seem logical that if facilities are made available to the fishermen to obtain loans that the credit unions should be given the same guarantee as the bank?

Mr. BÉRUBÉ: That is fully agreed.

Mr. ROBICHAUD: Is it not also true that in every province the credit unions have either a central office or a federation?

Mr. BÉRUBÉ: That is true.

Mr. ROBICHAUD: By which those loans could be dealt with?

Mr. BÉRUBÉ: Could be channelled.

Mr. ROBICHAUD: Yes, and the inspection that is required could be done through this federation?

Mr. BÉRUBÉ: Yes.

The CHAIRMAN: There is just one question which arises in my mind and perhaps you could answer it. I understood Senator Vaillancourt to say that the province of Quebec already guarantees loans. Is that correct? Did you say that to the committee, Senator?

Hon. Mr. VAILLANCOURT: No. Some loans are guaranteed but not all loans. They guarantee four per cent interest.

The CHAIRMAN: The interest?

Hon. Mr. VAILLANCOURT: Yes.

Mr. CROLL: Mr. MacEachen?

Mr. MACEachEN: Mr. Bérubé, what is the average period of repayment for loans given to fishermen?

Mr. BÉRUBÉ: In my estimation it takes two or three years to repay the loans.

Hon. Mr. VAILLANCOURT: Three years.

Mr. BÉRUBÉ: That is your answer.

Mr. MACEachEN: If the credit unions were brought under this bill, Mr. Bérubé, would they give the maximum period of eight years that is indicated in this bill?

Mr. BÉRUBÉ: Personally I do not see any harm in that since the loans on land or homes in some cases are for much longer periods than that, am I right? It could be decided if and when it arises, but I personally do not see any objection.

Hon. Mr. VAILLANCOURT: In some cases.

Mr. BÉRUBÉ: The honourable member of the committee asks that if this bill were passed would the *Caisses Populaires* be willing to lend for the full extent of the time mentioned in the bill which is eight years?

The CHAIRMAN: Was the answer "yes", senator?

Hon. Mr. VAILLANCOURT: Yes.

Mr. ROBICHAUD: I have another question, Mr. Bérubé. If loans were guaranteed as an additional security would it not be possible for the fishermen to take advantage of the insurance scheme which is already in effect through the Department of Fisheries?

Mr. BÉRUBÉ: That would be a nice compliment and in all cases it would be necessary, I am sure.

Mr. ROBICHAUD: The reason I asked is that this instrument is only available up to a maximum of \$7,500, if I remember correctly. These loans would help to fill in a gap which already exists on loans being made by fishermen's loan boards. In the last few years I have noticed that the Fishermen's Loan

Board of Nova Scotia has been rather reluctant to make small loans to shore fishermen while they have been extending their larger loans to draggers so these small loans would certainly be of advantage to the small fishermen who at the present time are not in a position to obtain small loans from the fishermen's loan boards?

Mr. BÉRUBÉ: Yes. If I understand your question, that would be the case. It should be referred to the Minister of Fisheries. As far as the maximum of the insurance on the boat is concerned, it is \$7,500. Is this an absolute ceiling or could it be extended?

Hon. Mr. SINCLAIR: It is the present ceiling.

Mr. BÉRUBÉ: Does that answer your question?

Mr. ROBICHAUD: Yes.

Mr. MACEachen: Mr. Bérubé, does the credit union movement in Quebec now have ample funds to provide loans to the fishermen and connected with that question is the comment you made yourself that the provision of this guarantee would encourage depositors to provide funds for greater service to the fishermen?

Mr. BÉRUBÉ: I was speaking generally for all across Canada. As far as the *Caisses Populaires* is concerned, would you have funds available in the *Caisses Populaires* in Quebec to meet the demand?

Hon. Mr. VAILLANCOURT: Yes.

Mr. BÉRUBÉ: The answer is yes, Mr. MacEachen.

Hon. Mr. Vaillancourt: The *Caisse Populaire* in Quebec has total assets of \$375,000,000 and total assets of \$450,000,000 for all of Canada.

The CHAIRMAN: Does that answer your question?

Mr. MACEachen: Yes. I wonder if Mr. Bérubé would follow up his line of thinking when he suggested the provision of this guarantee to the credit union would encourage depositors to put more funds in?

Mr. BÉRUBÉ: I was speaking as chairman of the national federation, and I think that in some parts of Canada there would be a need of funds—or at least there might be—and this would be the answer. I hope they would claim the least physical support possible, but the moral support thus given would encourage the depositors. That is my belief.

Mr. MACEachen: That would be a very excellent by-product.

Mr. BÉRUBÉ: Yes, first class—as good as the main product sometimes.

The CHAIRMAN: Thank you very much, Mr. Bérubé. Mr. Gordon Smith, Canadian manager, Credit Unions National Association.

Mr. SMITH: Mr. Chairman and honourable members. I am here representing credit unions across the ten provinces of our country totalling 2,400 in number who are affiliated with the credit union national association. The headquarters of operations are in Hamilton, Ontario. We have representatives here of the credit union leagues in Nova Scotia and British Columbia who are associated with me in this presentation before your committee. We also have with us a representative from *La Fédération des Caisses Populaires Acadiennes* in New Brunswick, and we have by mutual agreement determined to support the presentation which will be made to you in brief form by Mr. McMaster the agent and solicitor for the British Columbia Credit Union League as well as Mr. R. J. MacMullin of Nova Scotia the managing director of the credit union league in that area and Mr. Euclide Legère, director of the *La Fédération des Caisses Populaires Acadiennes* of Caraquet, New Brunswick.

It is not my province to suggest to the committee that perhaps for the purpose of brevity you would like to hear from these representatives of the Credit Union Movement in this country and that questions be asked at the completion because all the presentations are similar in intent and differ only in broad principle.

The CHAIRMAN: The next gentleman who will address us will be Mr. R. J. MacMullin, managing director of the Credit Union League of Antigonish, Nova Scotia.

Mr. MACMULLIN: Mr. Chairman and gentlemen, you all have a copy of the brief that is to be presented on behalf of the Nova Scotia Credit Union League. I am not going to read it, I am merely going to make a few comments upon it. I think you will all recall that credit unions were started in eastern Canada, especially in the maritime provinces, in the early thirties. They were started there as a result of the inauguration of a program which we called a total program for the rehabilitation of the people generally in the maritime provinces. That included our fishermen, our farmers and our industrial workers of various kinds. Shortly after the inauguration of this total program for the rehabilitation of our people one of the basic needs that was first discovered was the need for credit facilities. In talking on this question we are interested primarily in our fishermen. It is safe to say that in no occupational group in the Maritime provinces was there a greater need for credit facilities than among fishermen. Hon. members have pointed out in the House and have stated, and it is a fact, that the primary source of credit to our fishermen was their local fish buyer, or supply company, and after 1932 and 1933 the local credit union which established itself in those fishing communities.

In twenty years these credit unions have been providing to the fishermen a source of credit comparable to the means and ability of the credit unions to supply that need. It is interesting to note that one of the very first credit unions organized in Nova Scotia was in May, 1933, at Canso, from whence it has spread along the coast so that today there are credit unions in practically every fishing community along the shores of our province.

Today we have approximately 220 credit unions and in savings, approximately \$8 million, and they have loaned to themselves about \$40 million.

I think it is important to say that in 90 per cent of the cases those savings were credited by people who ordinarily would not have accumulated any savings. Likewise, in 90 per cent of the cases the \$40 million of loans has been lent out to people who ordinarily would not have had a comparable source of credit, so there has been a significant contribution by the credit unions to our whole economy and especially in our fishing communities.

Of our total credit unions we have approximately sixty which are operating in fishing villages, and more than half of these can be classified as exclusively fishermen's credit unions, and are operated in communities where fishing is the only industry and where everybody in that community depends on fishing for his livelihood. The remainder, probably another 30, would be located in communities where there are various occupations and industries but where fishing nevertheless is an important part of the economy of that community. In all our operations the losses which have been sustained in our credit unions—we have to admit that there are losses the same as in any business—but the losses which have been sustained have been for practical purposes very, very minor. We have written off about \$37,000 on a loan value of something over \$40 million. All of that has not been written off because of dishonesty on the part of the people borrowing. In the intervening years, as you well realize, we had a war, when many young people left our communities

and went overseas. It is reasonable to expect that many of them, when they left, would leave unpaid loan balances in our credit unions. Since many of them did not come back, the credit unions, being the type of institution they are, decided to write them off out of their reserves rather than to go out and collect from widows, mothers, and people like that. That accounts to a large extent for the actual amount of money written off as against the reserves in our credit unions.

From the point of view of stability, business soundness, and actuarial competency, we can say from experience that our credit unions qualify in all those different aspects. The other important thing I want to point out is something that we do not want to repeat too much, but our credit unions have been located in areas where other credit facilities were not available. Even in those areas, where other credit facilities might have been available, the credit unions pioneered and took on the risk of financing our fishermen with little more than character as a security, when no other financial institution could see fit to advance credit to them.

Their success has justified the faith which they placed in the fishermen along our shores. I do not think there is much more I need to add in my remarks, because it is all here in this brief. I think it is self-explanatory; but I would just like to say that we commend the government for its initiative in introducing legislation which is going to help fishermen, and wherein credit unions are included. We can assure you that we will continue as credit unions and provide the same type of service to our fishermen as we have done in the past, whether there are government guarantees or not. If these are, then so much the better. It will encourage us and it will give our fishermen more encouragement to get further into debt in order to get the tools whereby they can increase their production and living standards and general livelihood. We will continue to do that. But with your assistance, by giving us legislation which we feel we deserve—which the credit union movement is deserving of—we can do a better job as credit unions along with the banks in long measure, with regard to the production of the fishing industry in our Maritime provinces and in Canada.

Mr. TUCKER: I wonder if the witness would care to comment on the last sentence in his brief, which reads as follows:

Our contribution, along with that of the banks, should go a long way to rehabilitating the fishing industry, especially in Nova Scotia.

What do you envision as the necessity in the way of rehabilitating the industry?

Mr. MACMULLIN: There are those who can speak with more authority on this particular topic than I can. I think we all recognize that in the Maritime provinces especially—and I speak for the Maritimes, because I know it better—the fishing industry there is undergoing what might be called an industrial revolution. The necessity is that of bigger boats, small draggers, long liners, and more mechanization. These are necessities which they will have to get if they are going to make a livelihood in fishing. That means money, and it means the kind of money that the average fisherman has not got. We are assuming, in this last statement, that this legislation is definitely going to apply to the banks, and that the banks will make contributions towards financing the fishermen. If we can also come under this legislation, we can make a contribution too, and that contribution should be significant enough to help our fishermen in large measure in obtaining the gear and equipment which they need in order to get into this bigger operation which they must have if they are going to make a decent livelihood.

Mr. MONTEITH: Do these credit unions in Nova Scotia come under a provincial charter?

Mr. MACMULLIN: Yes sir.

Mr. MONTEITH: Under what department? Is there any periodical inspection as to their financial position, set-up, and so on?

Mr. MACMULLIN: In Nova Scotia the Credit Union Act is administered by the Department of the Provincial Secretary. That department is responsible for the administration of the act. The registrar of credit unions at the present time is Mr. C. L. Beazley, and working under Mr. Beazley there are inspectors whose duty it is to examine into the affairs of every credit union annually, and more often if they deem it necessary. So each year each credit union is inspected and if the inspector feels it should be inspected more often he is free to do so. The important thing is that it is done and along with these inspections the Credit Union League has two men continually in the field doing comparable work but without any legal authority to do it. They are continuously sitting in with the boards of directors of the credit unions and discussing procedures and helping them frame adequate policies and adequate procedure to promote their credit unions soundly and in a businesslike way.

Between the government and the league we feel we are taking every reasonable precaution to safeguard the growth of our credit unions.

Mr. MONTEITH: Have you had any failures since 1932-33 when you commenced operations?

Mr. MACMULLIN: The only failures we have had in Nova Scotia have been failures which have been due to the fact that in the early days many of our credit unions were established in small rural communities. Mr. MacEachen who is sitting just a few seats from me knows the situation in his particular county where a few years ago we organized credit unions in many small communities. At that time they were flourishing communities with a church, a school, and possibly one or two grocery stores and so on. Today many of those communities are isolated. The people have left. The war years drew them away to the towns and cities. Just because of the drying up of the population in those areas, credit unions have ceased operations. But we have had no failures as far as bankruptcy or anything of that kind is concerned. Of those credit unions which have closed up I do not know of any case where they have not paid back to the investors dollar for dollar.

Mr. BALCOM: Mr. C. L. Beazley is a provincial government officer?

Mr. MACMULLIN: Yes. He is the deputy provincial secretary and registrar of credit unions.

Mr. BALCOM: Are the savings accumulated by these fishermen generally reinvested in the credit unions?

Mr. MACMULLIN: Those savings which the members accumulate in the credit union are invested back in the members by way of loans to the members. In the credit unions we feel that the best investment a credit union can make is in productive or provident loans to the members concerned and we encourage our credit unions to invest as much as they are able in that kind of operation.

Mr. RICHARDSON: They have been operating for about 20 years. What is the average loan say in the last ten years?

Mr. MACMULLIN: I would say it would probably work out between \$300 and \$500.

Mr. RICHARDSON: In the last ten years, what if anything have the chartered banks done in these communities to help the fishermen?

Mr. MACMULLIN: Well, as far as the fishing communities would be concerned—I say this without prejudice.

Mr. RICHARDSON: Just say it anyway.

Mr. MACMULLIN: My personal opinion is that the chartered banks have not done a great deal as far as the fishing communities are concerned. I say that for the simple reason that by and large it is almost physically impossible for the banks to provide the type of service. They just are not there. An individual is not going to travel 40 or 50 or 100 miles to negotiate a loan if he can do it locally through a local credit union.

Mr. MACDONNELL (*Greenwood*): The witness spoke about the increase in the size of business, the greater financial requirements. What in your opinion would be the size of loans in the case of larger businesses which would be required? You have told us the small average up to date but from what you say about the increase in the size of business I wonder whether it would be larger?

Mr. MACMULLIN: A few days before coming to Ottawa we handled an application from a fisherman in Cheticamp. He was one of the fishermen I referred to as being anxious to get into more mechanized operation. He required a loan of \$3,000 to handle such a program. We advanced him that from our central organization because a \$3,000 loan was a little bit too large for his local credit union to handle. They referred it to us and we took care of it from our central organization.

Mr. MACDONNELL (*Greenwood*): You spoke about the provincial organization which I understand supervises to some extent the locals. What is the relationship between the provincial organization and the over-all dominion organization?

Mr. MACMULLIN: There is an over-all dominion organization. Actually the relationship there is not too clear as yet because the national organization—and I presume you are referring to the National Cooperative Credit Society—is a very new organization which is getting started and the future is more or less indefinite as to that. It will take a few years before that will grow. We do hope that as it grows it will provide an added source of credit facilities to put back into the credit unions. In other words, in certain seasons, funds can be taken from one part of the country and made available to another part of the country where there is an opposite season.

Mr. MACDONNELL (*Greenwood*): If you were included in the ambit of this bill would the procedures outlined here be easy for the local credit unions to carry out, or would you need some different procedures?

Mr. MACMULLIN: Generally speaking, yes. We would expect, if we come under this bill, that we would have to meet certain requirements. I have faith that the government is going to make those requirements as reasonable as possible. If they are reasonable then certainly there is no reason why we would not accept them. As they are now, I do not think there is any great difficulty in the credit unions coming under them.

Mr. FRASER (*Peterborough*): What is the interest paid on loans? What do the fishermen have to pay?

Mr. MACMULLIN: In our fishing communities I would suggest that the ordinary rate of interest that would be charged would be 6 per cent.

Mr. FRASER (*Peterborough*): That is the average rate?

Mr. MACMULLIN: Yes.

Mr. FRASER (*Peterborough*): What do you pay on deposits?

Mr. MACMULLIN: This is a technical one. In the credit unions the big source of our funds is what we refer to as share capital. A dividend is paid at the end of the year and it varies from credit union to credit union from 2 to 3 per cent. On deposit money that is deposited with the intention the member withdrawing it next week or next month the interest rate probably varies from $1\frac{1}{2}$ to 2 per cent.

Mr. FRASER (*Peterborough*): Then you also have shares?

Mr. MACMULLIN: Yes.

Mr. FRASER (*Peterborough*): What do they pay?

Mr. MACMULLIN: Probably from 2 to 3 per cent.

Mr. FRASER (*Peterborough*): On the shares?

Mr. MACMULLIN: Yes.

Mr. FRASER (*Peterborough*): What is the capital of these unions?

Mr. MACMULLIN: The capital is unlimited as far as law is concerned. It varies with the size of the credit union.

Mr. FRASER (*Peterborough*): What would be the average?

Mr. MACMULLIN: We have approximately \$8 million in the total assets in the province and about 200 credit unions. Let us say, \$40,000.

Mr. FRASER (*Peterborough*): Do all the small credit unions pay into the central association?

Mr. MACMULLIN: They invest in the central only those funds which they do not have a ready demand for by way of loans. If they have surplus funds which they are not using today for their own members, and which they feel they will not use for the next month or so, they will invest those funds in the league which will in turn invest the funds in some other credit union so that credit union will have the benefit of earning on what would otherwise be idle money.

Mr. HENDERSON: You say that your rate of interest averages 6 per cent. How high does it go?

Mr. MACMULLIN: In our urban credit unions where the repayment plan is usually different, our credit unions will probably charge three quarters of one per cent per month, or a maximum of one per cent.

Mr. HENDERSON: Under this bill I notice that the rate of interest will be five per cent. How are you going to choose the ones who will get the five per cent and the ones who will pay the twelve per cent?

Mr. MACMULLIN: We will have to make the distinction on the basis of the security, giving the preferential rate to those who qualify as coming under this piece of legislation.

Mr. HENDERSON: In that event only those with good security would be able to take advantage of this bill?

Mr. MACMULLIN: That is right.

Mr. HENDERSON: And that fits in with your program for helping to provide better equipment for fishermen?

Mr. RICHARDSON: I would like to follow up the question asked by Mr. Fraser. Mr. MacMullin, you spoke about the average rate of interest being six per cent. Is that the simple rate of interest or is it a discount rate?

Mr. MACMULLIN: It is a simple rate of interest. Not discounted.

Mr. BALCOM: The Nova Scotia government has lent about \$2 million to fishermen. I suppose that would be for the larger boats and engines. I take it most of your loans would be to the smaller fishermen—the inshore fishermen.

Mr. MACMULLIN: That is right. The type of loans made by the provincial government—the type of loans you refer to—is on a larger scale at a preferred rate of interest and with many other advantages which the average lending institution could not afford.

Mr. QUELCH: On page 4, at the bottom of the page, it says:

Through this organization all their loans are insured against death or disability and their life savings are complemented by insurance of their savings.

Has the fisherman to take out insurance on the equipment he purchases? You do not mention that in the brief.

Mr. MACMULLIN: That is a matter for the internal policy of each Credit Union. Under the Credit Union Act the Credit Committee is given the sole responsibility of deciding whether or not a loan should be granted to an individual, whether he is a fisherman, a farmer, a steel worker, a miner, or whatever he may be, and one of the duties prescribed for members of the Credit Committee is that they must be satisfied that there is security for the loan in each case either with the Credit Union or with the local Credit Committee. It is within the committee's own discretion to determine what they will take as security, whether, in taking certain types of security, they should have further insurance and so on. So I would say that in cases where they take as security something of the nature of real estate they would in their prudence have that protected against fire and other hazards.

Mr. RICHARDSON: I was going to ask a question on another point: it is my understanding that in all of these Credit Unions no salaries are paid—that is, in the local unions.

Mr. MACMULLIN: The larger percentage of our Credit Unions are operating with part-time help and the treasurers and the officials voluntarily do the work. There is no remuneration, excepting that at the end of the year if a small Credit Union has a fair balance left in the "kitty" after they have paid a dividend it may make a grant to the treasurer purely as an honorarium. That would vary from, say, ten dollars in the case of some of the smaller Credit Unions to perhaps a couple of hundred dollars in a bigger union. As these unions grow and as more time is required to be spent in their management, then, of course, salaries are paid.

Mr. RICHARDSON: I do not complain about what you have said, but of course it gives the Credit Union a very clear advantage over other institutions such as the chartered banks in making loans. Do any of the Credit Unions in Nova Scotia pay any taxes?

Mr. MACMULLIN: They pay local taxes.

Mr. RICHARDSON: But not income tax or profits tax as the chartered banks have to do.

Mr. MACMULLIN: No.

Mr. MACEACHEN: I think the answers the witness has given are leaving a wrong impression about the growth of certain Credit Unions in the province. Maybe, Mr. MacMullin, you could tell the committee about the New Waterford Credit Union where you have a full time salaried manager and staff.

Mr. MACMULLIN: We have several Credit Unions such as the one Mr. MacEachen has mentioned at New Waterford. We have two in fishing communities at Cheticamp and West Pubnico where operations have grown to such an extent that somebody has to be in the office every day and many nights. It is of course unreasonable to expect that anybody could afford to devote such

a large amount of time to the operations without getting paid for it and in these cases people are paid what is considered to be a reasonable salary commensurate with the ability of the Credit Union to pay and the job they are doing. In New Waterford there are probably four employees in the office on full time salaries, working a regular day and often at night, and you would expect them to get paid for that.

Mr. FRASER (*Peterborough*): With regard to this figure you have mentioned of three-quarters of one per cent per month—is that compounded monthly?

Mr. MACMULLIN: No. It is purely and simply on the unpaid balance.

Mr. FRASER (*Peterborough*): At the end of what time?

Mr. MACMULLIN: At the end of the previous payment.

Mr. MACEACHEN: Mr. MacMullin, in your opening remarks you referred to the fact that the development of the Credit Union movement in the province of Nova Scotia and in the other Maritime provinces was part of a definite program for the rehabilitation of the Maritimes, and in particular for the rehabilitation of the fishing industry.

I do not know whether the present witness wishes to speak to that, or whether another witness will do so, but I think it is of some importance to give the committee full knowledge of the fact that the development of the Credit Union in these fishing communities is only a part of a general program which is being followed in marketing, production and so on, and I think that in order to get a better view of the relationship between the extension of credit facilities and the other marketing and producing development that we should have some information on what this total program is.

The CHAIRMAN: You have not done too badly yourself. You have pretty well answered the question. Later, as a member of the committee, you will be able to put us in the picture more completely.

Mr. MACEACHEN: I wanted to know whether Mr. MacMullin has any intention of doing this, or whether any other witness is going to do so.

Mr. MACMULLIN: The answer to that question I think is this: In the late twenties the government—I think it was this government—took the initiative in appointing a Royal Commission to investigate the fishing industry of the Maritimes which at that time was in the doldrums and the report of that commission suggested that the most scientific method of rehabilitating the fishing industry in the Maritimes was to organize the fishermen for production and for marketing. It was that recommendation of the committee which to a large extent brought about our expansion program. When the promoters of this total program went out into the communities they found there was not a lot of understanding on the part of the people. They did not have a knowledge of conditions or the facilities to market or process their fish, and they did not have the credit facilities to “oil the wheels” of the financial operation of the scheme. The first thing, therefore, was credit, and they started these Credit Unions which to some extent provided credit facilities, and as they conquered that particular problem they were able to tackle those other problems I have spoken of, and other developments followed on logically. One, of course, was the organization of small groups for the marketing of the catch so that fishermen could become independent of the local fish buyers and be able to pool their catch and obtain the best possible price for their product.

That was the second phase in the program. Gradually it developed in other areas. We got into housing, consumer cooperation of various kinds and different services and the total of that effort is the total program we refer to—not just Credit Union loans but a total program which applies to all the different occupational groups.

Mr. MACEACHEN: Mr. Chairman, may I beg your indulgence for another question. On page 2, paragraph 3 in the brief mention is made of some of the larger Credit Unions being located in typical fishing communities such as Cheticamp, Grand Etang and West Pubnico. Can you give the committee any picture of how your total program is operating in those fishing communities?

Mr. MACMULLIN: To be brief, to take the position of Cheticamp today, we have a Credit Union in full time operation and providing complete services to the membership. It is also comparable in membership to the population of the community because practically everybody is in the union, including the children, and members of the committee may be encouraged to know that many of the family allowance cheques that go out from the Department of Finance, which is also interested in this bill, go directly into this credit union as savings for those children. Along with the development of the credit union they have also developed a consumer cooperative store which they have organized themselves for their own merchandising needs. Coupled with that they have their own fishermen's organization where all their fish are processed or are assembled for marketing as a group through a provincial or maritime organization. In that way, of course, they get the benefit of organized marketing and grading and of course they obtain the best possible price their market pays for their produce. Their vocational supplies likewise go through cooperative channels and they are able to obtain whatever little savings might be available by group purchasing and things of that nature. The general community itself has reflected that progress. Their homes are painted and they have an appreciation for beauty and around their homes can be found flowers and grass and things of that nature. They have a greater appreciation for preserving their fisheries as a national resource. All those things have come in large measure as a result of this total program which was, of course, based on total education.

Mr. RICHARDSON: May I ask one last question. Mr. MacMullin, what are your facilities for the auditing of all the credit unions?

Mr. MACMULLIN: Our auditing is actually done by our provincial inspection department which has taken the attitude that they cannot make an adequate inspection and satisfy themselves that the credit union is such and such unless they probe so deeply into it that their inspection practically constitutes an audit. It is compulsory for credit unions with assets in excess of \$200,000 to submit to an external audit conducted by an outside auditor who must be a chartered accountant or some person approved by the registrar of credit unions who will only approve someone who is on the list as a municipal or broker's auditor. This, along with the internal inspection that is provided by the local supervisor, gives a pretty fair guarantee that there will not be too many things which could happen in the credit unions.

The CHAIRMAN: Thank you very much, Mr. MacMullin.

Our next witness is Mr. Euclide M. Lèger. You have his brief which is that of *La Federation des Caisses Populaires Acadiennes*.

Mr. EUCLIDE M. LÈGER: Mr. Chairman, and gentlemen:

On behalf of *La Federation des Caisses Populaires Acadiennes*, for New Brunswick, I should like to associate myself with the statement given by the Nova Scotia Credit Union League, since the situation in my province is much the same as in Nova Scotia.

However, I might add a few statistics concerning our credit unions in New Brunswick which will be valuable to the committee in considering our request. There are 163 credit unions in the province, with approximately 67,000 members and over \$8,000,000 in savings. Total loans recorded for the 19 year period (1935-1955) is over \$37,000,000.

We have 55 credit unions operating in fishing communities, and as a matter of fact the largest credit union in our federation is in a fishing community—Caraquet. As in Nova Scotia we have insurance coverage on loans and savings, provided by our own insurance company organized through the credit unions. Our record in uncollected or delinquent loans is worth noting: in total loans of \$37,000,000 the amount written off to date is about \$12,000. This is equivalent to a loss of one dollar for every \$2,800 loaned from the beginning.

It might be well to point out that of 118 community credit unions in New Brunswick, 102 are operating in rural communities, whereas only 16 are in towns and villages, the place where we find chartered banks.

The provincial government inspection system is much the same in New Brunswick as in Nova Scotia. We have a Registrar of Credit Unions and two inspectors for the province.

We also feel that if this legislation, Bill 452, is intended as a service to fishermen, it should be provided for the fisherman whether he has his credit established in a chartered bank or in a credit union.

We feel that, if the credit unions are excluded from this legislation, it will mean that the fisherman is being penalized for the efforts he has made for the past 17 years in organizing credit unions which have enabled him to build up his own credit facilities. We assume that the Government of Canada would want to give better recognition of the work that credit unions have done in building good Canadian communities.

We wish to assure you that *La Federation des Caisses Populaires Aca-diennes* will co-operate in every possible way to ensure the success of any plan whereby credit unions can avail themselves of government guarantees for loans to fishermen.

The CHAIRMAN: Mr. Macdonnell.

Mr. MACDONNELL: The witness has said that there is over \$8 million in savings, and that the total loans are over \$37 million. What would be the total amount of loans outstanding at the moment?

Mr. EUCLIDE LÈGER: It would be approximately 75 per cent of the total capital, which would mean about \$6 million.

The CHAIRMAN: Mr. Applewhaite.

Mr. APPLEWHAITE: I wonder if the witness would explain the difference between the 163 credit unions referred to in the second paragraph of his brief and the 118 referred to in the fourth paragraph?

Mr. EUCLIDE LÈGER: The balance of the number of credit unions is comprised of such credit union groups as the Canadian National Railways credit unions and similar organizations.

The CHAIRMAN: Mr. Michener.

Mr. MICHENER: Would the witness tell us how much of the \$6 million now outstanding is on loans of the type which would be authorized under this bill, approximately?

Mr. EUCLIDE LÈGER: We feel that there is approximately some \$2 million to \$2½ million in savings by the fishermen, and we would have about 75 per cent of that \$2 million to \$2½ million.

Mr. MICHENER: Something less than \$2 million on loans to fishermen; and are those loans which are made to fishermen for the same purposes as are provided for in this bill?

Mr. EUCLIDE LÈGER: Well, maybe not. Maybe not the entire total, but a good proportion of it.

Mr. MICHENER: Thank you.

The CHAIRMAN: Mr. Balcom.

Mr. BALCOM: Does the insurance cover only those loans which the credit unions make?

Mr. EUCLIDE LÈGER: That is right.

Mr. BALCOM: And nothing outside.

The CHAIRMAN: Mr. Fraser.

Mr. FRASER (*Peterborough*): In insuring the people who make the loans, do you keep a separate account of that, and of the profit which you make on them, that is on the insured? I understand you insure the life and you also give them disability insurance as well as property insurance.

Mr. EUCLIDE LÈGER: Would your question apply to loan coverage?

Mr. FRASER (*Peterborough*): Yes.

Mr. EUCLIDE LÈGER: As far as local coverage is concerned, the local credit union is the one which has insured the membership as a whole with the insurance society. At the present time out of 84 credit unions that are coming in our federation, I think we have around 78 or 80 which are covered by insurance.

Mr. FRASER (*Peterborough*): What are your average losses on that?

Mr. EUCLIDE LÈGER: On the coverage?

Mr. FRASER (*Peterborough*): Yes on the total coverage?

Mr. EUCLIDE LÈGER: Well, it is never the same every year. I think the insurance society has made good progress yearly.

Mr. FRASER (*Peterborough*): They would make a good profit on that end of the loan, do you mean?

Mr. EUCLIDE LÈGER: On the loan insurance.

Mr. FRASER (*Peterborough*): Yes.

Mr. EUCLIDE LÈGER: Yes.

The CHAIRMAN: Mr. Macdonnell.

Mr. MACDONNELL: When I asked the witness about the amount of loans outstanding he said \$6 million and 75 per cent of the capital. Did he not mean 75 per cent of the deposits?

Mr. EUCLIDE LÈGER: That would be 75 per cent of the amount mentioned, \$8 million.

Mr. MACDONNELL: Is that fixed in any way? Have you got a limit?

Mr. EUCLIDE LÈGER: A limit?

The CHAIRMAN: Could you have more than \$8 million?

Mr. EUCLIDE LÈGER: Absolutely. We are progressing from year to year about \$500,000.

Mr. MACDONNELL: I mean either by your own regulations or by law; are you limited in the amount of loans which you may have outstanding?

Mr. EUCLIDE LÈGER: Yes.

Mr. MACDONNELL: It is fixed in relation to your deposits, or how?

Mr. EUCLIDE LÈGER: It is fixed in relation to the share capital which we must keep at least 15 per cent liquid, and 10 per cent of the deposits; but we recommend that a credit union should never lend out more than from 75 per cent to 80 per cent of its whole capital, its total capital.

Mr. CAMERON (*Nanaimo*): On deposit, plus share capital?

The CHAIRMAN: Are you clear Mr. Macdonnell?

Mr. MACDONNELL: Not quite!

The CHAIRMAN: Well then, please make it clear because I think it is important.

Mr. MACDONNELL: I am not quite clear yet as to how the limit on your loans is arrived at. I think you said that you had 75 per cent of your deposits, and then you mentioned capital and that is confusing.

Mr. EUCLIDE LÉGER: As far as capital is concerned, this includes deposits, shares, and the reserve fund.

The CHAIRMAN: I see!

Mr. MACDONNELL: I think that makes it clear, that there are three things which are included.

The CHAIRMAN: Very well. Thank you very much, Mr. Léger.

We have with us Mr. Alexander Laidlaw, associate director of the extension department of St. Francis Xavier University, and co-author with Mr. Bérubé of the brief and he would like to say a few words. I now call on Mr. Laidlaw.

Mr. ALEXANDER LAIDLAW: Thank you, Mr. Chairman and hon. members of the committee. I do not wish to add unduly to the evidence which has already been presented. As the chairman has indicated, I have associated myself with the brief presented by Mr. Bérubé. Perhaps I might explain that in addition to representing the extension department of St. Francis Xavier University, which for some years has been privileged to work very closely with the fishermen of the Maritime provinces, by virtue of an education grant from the government of Canada, I have also been asked to represent the United Maritime Fishermen which is a federation of fishermen's co-operatives in the Maritime provinces. So much has already been said about the past history of the fishing industry and the transition through which it is going at the present time that I do not want to add any more except to say that if any hon. members of the committee want additional information I would be glad to supply it.

I might illustrate the possible application of this legislation as it applies to a typical fisherman today in the Maritime provinces who is changing from the form of fishing that was all too general in the Maritimes in days gone by, to a more advanced and mechanized form of fishing at the present time. I think it was Mr. Balcom who referred to the Fisherman's Loan Board in Nova Scotia. Let us imagine a fisherman today who wants to purchase one of the long liners described in this brief, of which today we have some 43 as against none of that type at the end of World War I. Boats of that kind will cost approximately—that is with diesel engine—about \$27,000. I do not think any mention has been made of it yet, but the federal government here provides a subsidy for a boat of that kind based on the tonnage of the boat. I think it is \$165 a ton. On a boat of that type the subsidy would probably run about \$6,000, leaving the balance of \$21,000 to be financed by the fisherman. His first approach would be to the Fisherman's Loan Board. I am speaking of the Nova Scotia Fisherman's Loan Board; and it requires a down-payment of one-third which, in this case, would be \$7,000; and the Fisherman's Loan Board would loan the rest for a ten year period, \$14,000, 75 per cent of which has to be repaid in five years, and the remaining 25 per cent in five years. Therefore, the fisherman has to find \$7,000, and I suppose the members of the committee will appreciate the difficulty of the average fisherman putting his hand on \$7,000. He probably has a boat right now that is valued at or which he can sell for \$2, 3 or \$4,000 or probably a little more. But the fisherman is in very much the same position as the householder or the citizen today in Ottawa who wants to build a house that is probably worth \$20,000. He cannot lay his hands, perhaps, on too much cash. So I would visualize that the application of this legislation would go very far to assist that fisherman to raise the balance of that money, that is the \$7,000.

Now, as to the other details of the operation of the credit unions all of that has been so well covered that I do not want to repeat anything in the way of evidence which has already been given. All I want to say, Mr. Chairman, is this, that in many of our maritime communities the program as outlined by Mr. MacMullin is proving itself. It is a long process, as the process of education always is. Credit is a very important part of that rehabilitation program. The credit unions have performed an admirable task in meeting the credit needs in days gone by. They have made an excellent contribution to the rehabilitation of the fishing industry and I think the credit union members and fishermen's credit unions feel a little put out that, having performed yeoman service in the communities for about 2 years, they have been disregarded in the first draft of this legislation.

In order to save the time of the committee, Mr. Chairman, I would like to stop there and I shall be very pleased to answer any questions which you think will help to clear up the brief with which I have associated myself.

Mr. MACDONNELL (*Greenwood*): Might I ask one question? Earlier I asked about the size of the loans required and was told that approximately \$3,000, if I remember rightly, would be the largest amount required. In the illustration which you gave it would seem to me that considerably more was needed and I wondered how the \$4,000 figure in the bill would affect the case you mentioned.

Mr. LAIDLAW: Many fishermen are skilled fishermen who already have been fishing for some years and have something in the way of a boat which perhaps they can sell and move into a bigger craft. That is the first source of funds he will have. Personally, I think in time after some experience has been gained in the operation of this bill that the limit of \$4,000 will have to be raised if the bill is going to do very much in the way of helping the fishermen to better mechanize the industry.

Mr. MICHENER: If the bill provided for the guaranteeing of loans by the cooperatives would that make any more money available through the cooperatives for loaning or are they limited to the amount of savings they have on hand?

Mr. LAIDLAW: The credit unions are unlimited in their capitalization. I would not venture to predict how much more money would be attracted to the credit unions because of this legislation. Personally, I feel that the amount of money for some years would not be great. But as I see it the credit unions would like to be in the position that as they grow they will be able more and more to avail themselves of the benefit of this legislation.

Mr. MICHENER: The loss record in the credit unions has been so good that while they may like to be put in the same position as the banks loaning money it does not seem to be a case of necessity as over a period, as indicated in both these briefs, the losses have been practically negligible. I wonder whether it would be any real benefit to the credit unions to have this guarantee which the bill contemplates and whether it would attract any more money to the credit unions and increase their size and importance in business, which one could appreciate as a desirable objective, or whether they will likely do just about the same as they are doing now.

Hon. Mr. SINCLAIR: Is not the main purpose to allow the credit unions to lend money at 5 per cent on loans whereas now they have to loan at 6 per cent, and they could do that because of the extra security given by the government guarantee. Is not that the reason that you welcome the guarantee?

Mr. LAIDLAW: That is one of the reasons. Also the credit unions, having performed this service over the years for the fishermen, would be very dis-

appointed in the future to see some of their fishermen go to the banks to get their credit guaranteed by the government, and possibly the credit unions would be left with the tail end of the credit business for fishermen.

Mr. MICHENER: There would be the advantage, as I understand the minister's question, of a reduction in the rate of interest which the credit unions could charge. Am I correct in that? It would come down from 6 per cent to the 5 per cent rate?

The CHAIRMAN: That is what the minister said.

Mr. LAIDLAW: I might point out that that rate of 6 per cent is an arbitrary figure which Mr. MacMullin selected and it is a good average figure, but the credit unions are not limited as to the floor, as it were, on their interest rate. They are limited as to the ceiling but not on the floor of their interest rate.

Mr. MICHENER: That 6 per cent includes the insurance premium?

Mr. LAIDLAW: Yes.

Mr. MICHENER: Would you cease to insure if you had the guarantees under the bill?

Mr. LAIDLAW: My understanding is that they would not cease to insure the loans. I think probably Mr. MacMullin could answer that, but my understanding is they would continue the insurance feature.

Mr. MICHENER: What I am getting at is, if your request were accepted how would it work out in practice. If you have anything further to add for the information of the committee I am sure we would appreciate it.

The CHAIRMAN: Is he not saying in effect that they have laid the groundwork for this business and that it is a matter of prestige for them not to be left out. They would like to be associated with the government.

Mr. CAMERON (*Nanaimo*): Mr. Laidlaw, would you agree, if the legislation is passed as it is now and this type of loan is confined to the chartered banks, that there would be a great danger of an actual drain of funds from the credit unions to the chartered banks?

Mr. LAIDLAW: To some extent there would be but we must remember that a credit union lives on the interest on the loans made to members, and while fishermen might leave their funds in the credit union but go elsewhere for the credit, it would leave the credit unions without the source of revenue by which it lives.

Mr. APPLEWHAITE: The witness said that there was no legal floor below which credit unions could charge for interest. But can you tell us whether there has been from the provincial inspectors any suggestion or any influence brought to bear on credit unions not to reduce their interest rate to a lower level than what was considered sound, in other words, what is being done indirectly even though it was in the statute?

Mr. LAIDLAW: Perhaps not by the inspectors but perhaps by the officers of the credit union themselves because they would presumably see it would be policy to try to operate soundly: I think the influence would largely come from the credit union league and the officers of the credit union themselves.

Mr. PHILPOTT: Apart from the question of prestige—if you were excluded from the provisions of the bill some of your business might go to the large banks—what about the category of the prospective loans? Would the borrowers who will want to borrow from you be as good a risk as the ones who would go to bank?

Mr. LAIDLAW: Knowing the lending policy of the chartered banks, I imagine that they would very easily get the better risks.

Mr. PHILPOTT: So that if you were left out of this provision, the tendency would be that you would be left with the risks which were not so good.

Mr. LAIDLAW: I would say so.

Mr. CAMERON (*Nanaimo*): I imagine that they would tend to handle the more important loans and that you would be left with a large number of quite small loans requiring relatively heavy operational expenditure while, as I say, leaving them with the large loans on which the operative expenditure would be comparatively less.

Mr. LAIDLAW: Yes, I would think so.

Mr. MACEachen: It has been suggested here that the credit unions are already lending to the full capacity of their share capital, and that the inclusion of the credit unions under this legislation would not provide additional funds for the fishing industry. I think this suggestion arose out of the Nova Scotia brief and the New Brunswick brief, but at the same time Senator Vaillancourt suggested there were ample funds available for loans in the province of Quebec. My question is this: in 1953 the Cooperative Credit Associations Act was passed by this government and provided a means by which funds could be taken from one part of Canada, or from one central organization in one part of Canada, and given or allocated to other parts of the country. Do you think that if funds were not available in Nova Scotia, for instance, that this provision under the Act passed in 1953 would permit the credit unions to draw on funds in other parts of Canada?

Mr. LAIDLAW: In time, very definitely yes.

Mr. MACEachen: So the fact is that even though there may be a scarcity of available funds in Nova Scotia where the need is very great, through this legislation it could be channelled in from other parts of Canada, so really the argument as to the restriction of availability of funds is not valid in view of this possibility.

Mr. LAIDLAW: Yes, that is the case, although we realize it is going to take some while to organize this operation.

Mr. MACDONNELL (*Greenwood*): Can you tell us what percentage of the business of the credit unions in Nova Scotia would be concerned with fishermen? What percentage of your loans would be fishing loans? And secondly can you tell us what would be the percentage in the fishing villages, where obviously it it would be greater?

Mr. LAIDLAW: I cannot give you those figures. In Nova Scotia, as Mr. MacMullin indicated, some 60 of the unions are in communities which are either fishing communities or fishing and farming communities, and about half of them are in communities which are exclusively concerned with fishing. Taking that as a rough percentage, that is one seventh of the total credit union business in Nova Scotia would be in exclusively fishing areas. With regard to the second question—how much of the business in a fishing community would be for fishing equipment—again I cannot answer that, but I would be inclined to think that in a typical fishing community, I will take for example Grand Etang, which happens to be in the constituency of one of the hon. members of the committee, where they have an excellent credit union, that fully half of the loans would be for productive purposes in the fishing industry.

The CHAIRMAN: Gentlemen, we have one more witness. We shall have to hear him this afternoon. After that we shall give consideration to the bill.

We shall adjourn now until 3.00 o'clock.

AFTERNOON SESSION

June 22nd, 1955.

3:00 p.m.

The CHAIRMAN: Gentlemen, I see a quorum. Our next witness is Mr. R. J. McMaster, representing the British Columbia Credit Union League.

Mr. R. J. McMASTER: Mr. Chairman, and hon. members of the House of Commons: the chairman has warned me that the shorter I am, the more chance I have of success. So I shall be extremely careful.

I think you have already had this morning a fairly good picture of the excellent job which the credit unions have done in pioneering this kind of lending.

If you will be good enough to refer to my brief—I won't go through it in detail—you will find outlined in the first two pages in some detail the size of the credit union movement in British Columbia, and you will see that the fishermen's credit unions in British Columbia present a slightly different picture from that given to you from the Maritimes.

The total assets of the credit unions in British Columbia are \$35 million and of that sum \$27 million represents share capital. I think that is significant when we are dealing with the question of stability.

Secondly, I draw to your attention that in the last two years the total assets of the credit unions of the province of British Columbia have increased by 50 per cent so we are dealing with a growing thing, and a thing in which more money should be available for the kind of lending with which we are concerned here today.

You will observe that instead of the 30 odd fishing credit unions on the east coast, there are only about 8 substantially engaged in fishermen's loans. One of them has close to \$2,000,000 in assets, and in the last fifteen years it has loaned \$8,500,000 to fishermen for various needs. You will find also that one of these eight has close to \$1,000,000 in assets and has loaned \$2,500,000. You will get some indication there at the top of page 2 of the lending of that organization in the last five months; that approximately 31 per cent of their loans were on the very type of security and for the purposes that this Act was defined. You will see that picture in British Columbia is different from Nova Scotia as we are doing a great deal of lending through a smaller number of credit unions, and larger ones have the very type of security contemplated by the Bill. These loans are referred to at the top of page 2 and are loans not exceeding \$4,000. There are other loans for fishing vessels which are in substantial sums and with which some of the large credit unions deal, but the large bulk of that type of loan is a type of loan with which this kind of legislation would be useful.

Further down on page 2 you will see that 6 per cent is the uniform rate in British Columbia charged on this type of loan. Out of that 6 per cent insurance on life and against disability is paid. My understanding is that the rate is about three-quarters of one per cent for insurance with the Cuna Mutual, so that, in other words, the interest on the loan is really at a $5\frac{1}{4}$ per cent rate which is not substantially different from the provisions which are in the proposed Act.

The fishermen on the west coast feel, along with the fishermen in other parts of the country, that the credit unions have pioneered in this field, and that having pioneered it for fifteen years, and having shown a remarkably small loss ratio, and having regard to the sort of neighbourly nature of the organization, that they have demonstrated on the one hand their stability,

and further that they deserve the consideration of this House and should be placed in exactly as favourable a position as the banks in trying to accomplish the purpose of this legislation which I take to be to help the fishermen. It is not a case of helping the credit unions or helping the banks, it is legislation directed to helping the fishermen, and the fishermen's credit unions feel that they have demonstrated their ability in the past to do this job.

One of the problems raised this morning was the question of insurance and I would like to refer to it as to British Columbia. First of all, I would be hopeful that this personal insurance on a man's life, which at the present time is included in his interest charge, would be possible to continue under the provisions of the Act as they now are. I think legitimately, that the fishermen should be required to carry that kind of insurance to provide protection to the Dominion government itself. In addition to that, the fishermen on the west coast have organized their own mutual marine insurance company and they make good use of it. We see to it that our loans are insured and the vessels and gear and so on which are taken as security.

One of the basic problems I suppose with which this committee is concerned, as was indicated by the minister's speech in the House, was the question of the stability of credit unions, having regard to the fact that public funds would be behind them to some extent. In the first place, I think that a high percentage, 80 per cent of the investment in the credit unions being in shares, speaks very well for their stability. In other words, that is risk capital, and looking at any other financial institution in Canada I have been unable to find any which compares in that respect. Generally speaking, it runs from 10 to 20 per cent. Secondly, there is the history of the losses or the lack of losses perhaps, I ought to say—and I think there is a real reason for that which would be of interest to this committee—and it is that fishermen generally live in communities together. It might be that a fisherman has some of the characteristics of human nature which other people have. There are those, who if they can, avoid their liabilities, and will endeavour to do so. But a fisherman living in a community who avoids his liability to the credit union in respect to the money he is using, knows it is his neighbour's money, and his neighbour knows it too, so there is a certain measure of social pressure to see that there are not too many losses arising by way of bad debts. So I think that the government would have that element of stability and security which is back of the credit union movement.

There is in British Columbia substantially similar provisions as in Nova Scotia by way of Government inspection and statements, with voluntary supervision and assistance from the League organization of the credit unions. I think I am correct in saying that all of the eight fishermen's credit unions which would come under the category of legislation of this type in British Columbia have chartered accountants as their auditors, so you are dealing with a stable organization.

The second question which I suppose arises is how can the Dominion government be sure of financial stability, as one must be sure, when they guarantee somebody else's loan? I suggest to you that there is machinery within the provinces through the inspector of credit unions. I talked this over with the inspector of credit unions and with our Attorney General before I came down here to this meeting, and they said they would make available to you certificates of some kind from the inspector that in his opinion an applicant credit union is a stable organization with which the dominion government could deal, and the government could have a financial history say for three or five years if it had been in existence for the previous five years,

and financial statements would be submitted and regular quarterly statements through the inspector of credit unions. His certificates could deal with the stability of the organization and the management of the organization. So that in that respect I think that it can be met.

There is another problem, one which has been raised as a jurisdictional problem in the sense that the dominion government I think quite properly does not want to interfere in the field served by the provinces who have assumed and done a very excellent job of which we are all proud and pleased in the establishment and supervision of these credit unions. I would like to go on record on behalf of the credit union league of British Columbia—and I think it is true of all credit unions in Canada—that we want to continue the exercise of that jurisdiction. We do not want it interfered with.

My feeling, Mr. Chairman, is that a method can be devised whereby the government in Ottawa can be properly protected as to its interest in this matter without interfering with the jurisdiction of the provinces. I have made in my brief several concrete suggestions. I do not put these forward as being the end-all but as suggestions by which these problems may be met.

Before dealing with that there has been some question as to whether the credit unions will have enough funds to do this job. If you examine my brief you will find in British Columbia the credit unions at the present time have surplus funds at most times of the year and when they do not have surpluses they can borrow from British Columbia Central. They are growing and I do not worry about there being sufficient funds. At the present time they must have a million or a million and a half out on these types of loans. I have set out at page 7 the figures of the size of the fishing fleet in British Columbia and the amount invested in fishing fleets and gears. Roughly it was \$45 million on vessels and \$7 million on gears. So there is a definite area to be developed. In British Columbia the credit unions are in a position within their own organization and through their central organization to meet a fair share along with the banks of what may be required if this legislation is used for the benefit of the fishermen in that province.

Now, turning to the specific suggestions which I have to make at page 9, in the middle of the page, I have suggested there that there be added to the definition section of the Act the following words:

Lending institution includes a bank or any other lending institution designated by the minister.

And that the phrase "lending institutions" be substituted for the word "bank" throughout the legislation except in section 8 which deals with the Bank's power and would not be applicable.

Now, basically that suggestion is that in other words we are now towards the end of a parliamentary sitting—

Mr. FLEMING: It may be close to the end of the parliament too we are thinking.

Mr. McMASTER: The thing is that it is towards the end of the session of parliament and there are problems to be ironed out with respect to the inclusion of credit unions. The credit unions have every confidence in the Minister of Fisheries and the Minister of Finance and between them and their departments we think we can sit down and work out the practical requirements to ensure to the dominion government the kind of security which they legitimately ask for with respect to this kind of loan. Although a lot of us do not like this kind of legislation which is left to the minister to make rules and regulations I think if it were to be left to the ministers that the credit unions be happy in working with them to see what the problems are and try to devise means whereby the credit unions could receive proper recognition as a lending institution and be of service.

At the top of page 8 there is a second problem. As I remember the Act there is a guarantee of 15% up to \$½ million for the bank and as I see it the bank is the whole bank and not a branch down on Hastings and Main in Vancouver. It would be only fair to say that as we see it the whole Royal Bank of Canada gets a 15 per cent guarantee up to half a million and then goes to 10 per cent, and even a big credit union like Prince Rupert gets the whole thing, and we would be happy if you decided on 10 per cent, that is if you wanted to limit the guarantee to 10 per cent as far as institutions other than banks are concerned in this legislation. I think that that would be a fair thing to do. We can say that we are not afraid of the future. We have had a good experience in the past. If we had a 10 per cent guarantee I think it would give the fishermen that stimulation they require and that the credit unions and banks working together are anxious to assist them in their development.

The suggestion has been made of the possibility of doing this through the central credit unions. If it is possible to do it through the credit unions we think it is a preferable thing to do but if not we would suggest we explore the possibility of doing it through the centrals. There are a lot of difficulties in that. In the first place the credit unions I think quite rightly feel they should be entitled to do it, having done a job like this for 15 years they should be permitted to continue. Any further step you put in the process will cost money. There will be another administrative step. Also I think it brings some difficulty even in the control. It will be a second hand control because in some provinces the central credit unions do not lend money to individuals but only to other institutions. In Nova Scotia they do lend money to individuals. In British Columbia they do not. A further thing was mentioned this morning that all credit unions are not in the position that we are happily in in British Columbia, to take advantage of the Cooperative Credit Association Act, and you run into another series of problems there.

I think the amendment I have suggested would leave open the possibility of the officials of the department discussing this in order to try to work out which would be the best way to deal with the problem.

Mr. Chairman, I hope I did not go over my ten minutes. I very much appreciate this opportunity to meet this body and speak to it.

The CHAIRMAN: Gentlemen if there are no other questions and there appear to be none—I believe Mr. Cameron has a question.

Mr. CAMERON (Nanaimo): Mr. McMaster, what effect do you think the legislation as prepared at present would have on the deposit funds of credit unions—fishermen's credit unions—if the legislation were confined to guaranteeing the loans in the banks.

Mr. McMASTER: It is hard to predict but I do know from practical experience in dealing with primary producers—and I think businessmen are very much the same—that there is a difference between 6 per cent and 5 per cent and except for those who have a strong loyalty toward the credit union there would be a very strong temptation to say "we will take the lesser of the two evils."

Mr. FRASER (Peterborough): In regard to this amendment "lending institution including banks or any other institutions, designated by the minister"—that might mean finance companies, trust companies, or anything. It does not mention credit unions here. Do you not think that the lending companies should be set forth in your amendment so that it would not be left entirely to the minister?

Mr. McMASTER: That might, I would think Mr. Chairman, be one of the considerations of your committee. The only hesitation I would have with regard to it is whether it would raise some suggestion of trying to legislate credit

unions. I think that is probably on some people's minds, though on the other hand I think Quebec would like to see it there. I leave that, as I say, for the consideration of the committee.

Mr. FRASER (*Peterborough*): Would the words "credit union" cover the organizations you have in mind?

Mr. McMASTER: I suppose you would have to look at the National Credit Association Act—you get some little variation in the name—Credit Union, or *Caisse Populaire* or, in some places, Credit Society, but I think your legal people would be able to think out some way of dealing with that.

Mr. RICHARDSON: Perhaps the words "lending institution" might tie it down.

Mr. McMASTER: I think the minister would probably take direction from this group on that.

Mr. MACDONNELL (*Greenwood*): What is the nature of the security usually taken by credit union? Is it uniform and would you have any difficulty in complying with the terms of the bill as it now stands?

Mr. McMASTER: I do not think it is uniform. Fundamentally credit union lending policy is based on the character of the man who wishes to borrow, and I think that is true of any institution. However, it might be more true of the credit unions. In British Columbia they will take mortgages on this type of equipment. I understand that in the eastern part of the country they do not, but I feel there would be no difficulty if they wanted to benefit from this legislation—about taking the kind of security which the Dominion Government felt was reasonable security. They would be willing in other words to cooperate with a view to getting the benefit of the legislation.

Mr. MACDONNELL (*Greenwood*): Have you had to turn away applications for loans because of want of resources?

Mr. McMASTER: It depends upon the size of the loans we are dealing with. In the small loans bracket I think most of the credit unions have lent purely on the character of the borrower, but obviously when you get into the three or four thousand dollar loan bracket there is a greater tendency to say "there must be some security for this."

Mr. MACDONNELL (*Greenwood*): Have the large loans—the loans above \$4,000—been innumerable?

Mr. McMASTER: No, not too numerous. In the large credit unions—in the Prince Rupert one for instance—you could find a fair number of large loans, say up to \$10,000 on the books but in relation to the total operation the number is very small.

Mr. FLEMING: Mr. Chairman, I can appreciate Mr. McMaster's wish to make it as easy as possible for the government to accept the type of amendment he is proposing, but I do not see why he should go as far as to suggest a reduction on the guarantee from 15 per cent to 10 per cent. It seems to me, if I might suggest it to him for his comment, that he might approach this question from the point of view of some limit on the aggregate amount rather than a reduction in the percentage. In clause 6 of the bill you have got two maxima. You have got 15 per cent of the total aggregate loans and the additional maximum of \$500,000. Beyond that, of course, you run into the lower percentage. There might be some reason for reducing the fixed amount to something less than \$500,000 if you are going to compare the size of the business done by the credit unions with that done by the banks, but I do not see why you should not have the 15 per cent guarantee as well as the bank. This is not a problem in percentage, it seems to me, so much as a problem of setting your agreed maximum. All I am suggesting is that you should not give something away to the committee or to the government unless you have to.

Mr. McMASTER: I am not urging it. I have only referred to it as an indication that we are quite desirous of being fair. We do not want to have any advantage from the legislation beyond that which anyone else will get. If the government feels that 15 per cent is appropriate in the light of the services which the credit union have done, then certainly we shall be happy about it.

Mr. FLEMING: There are, of course, other credit unions besides yourselves, but I understand that no other union has made the same proposal. It strikes me that the percentage should be uniform in all cases for qualifying institutions and if there is some reason for establishing a lower maximum in the amount, that could be considered in the case of institutions that are doing smaller business than the large chartered banks.

Mr. McMASTER: I should have said that the others who have represented the other credit unions are associating themselves with my brief. That provision was suggested only with a view to showing a fairness of mind, not with the view of trying to take anything away from the credit unions. If you have a limit in mind, I suggest it should be related to total assets. You have in British Columbia, for example, a \$2 million fishermen's credit union and you might have in the Maritimes a \$200,000 union. That is the sort of thing which the minister might work out—how much the guarantee would be lower in relation to the size and stability of the organization, and that sort of thing.

Mr. FLEMING: I think that if that suggestion is taken up we would have to put something in the bill on it—if we are going to relate the guarantee to the assets of the organization involved.

Mr. HUNTER: Don't you feel that in view of the past record of the credit unions with regard to losses that whether it is 10 per cent or 15 per cent is largely an academic question?

Mr. McMASTER: That is my feeling. I think it is a matter, in a sense, of prestige and of knowing that you are on the same footing as other institutions, but we are not really concerned whether it is 10 per cent or 15 per cent. That is about the size of it.

The CHAIRMAN: Thank you, Mr. McMaster. We have now heard all the people who have expressed a desire to be heard on this bill. We have heard the representations, and the Bill is now in the hands of the committee. The first member who has asked to be heard is Mr. Applewhaite.

Mr. MACDONNELL (*Greenwood*): Are we not to hear from the minister at all?

Hon. Mr. SINCLAIR: I may say, of course, that I am not the minister who is sponsoring the bill. I am the Minister of Fisheries and I am here mainly because of our great interest in the credit union movement because we know what has been done in the last 25 years in rehabilitating the industry and in recent years in modernizing the industry. I think every fishing member has indicated the same interest.

The CHAIRMAN: Is Mr. Fleming a fishing member?

Hon. Mr. SINCLAIR: All the fishing members of the House, I meant, not fishing members of the Banking and Commerce Committee.

Mr. MACDONNELL (*Greenwood*): The Minister of Finance is not here but I think we would be glad to hear you in his place.

Hon. Mr. SINCLAIR: The Minister of Finance is represented here by his parliamentary assistant.

The CHAIRMAN: I do not think there is any problem.

Mr. APPLEWAITE: The first thing which occurs to me in connection with our discussion so far is that we have been discussing one thing only in connection with this bill and that is the omission of credit unions. There is some possibility that we may overlook the fact that this is a new bill and a new principle and quite a step forward on behalf of fishermen, and despite the fact that Mr. Sinclair has just said that it is not his bill I think the committee realizes that he is entitled to a fair share of the credit for the fact that it is before us now. The question before us now is whether or not credit unions should come in under this bill. I do not think it is necessary for us to make long speeches about credit unions. Their position in our society is recognized. They are here to stay and they are on the increase. I think this will be accepted by all. I do not think it is necessary either to make any strong plea on behalf of their soundness. Their record as it has been explained to us today and as many of us have encountered it over a period of years indicates how sound they are.

One of the things that perhaps was not stressed as I think it might have been is the amount of local and personal knowledge which the directors and managers of credit unions have of fishing business conditions and the personnel engaged in the fishing industry in their own area. It is because of that local knowledge that I would rather hope that if credit unions do come in under this bill their operation will be kept as far as possible on the local level. There is no one who knows more about the soundness and the ability—about the gear and boats owned by fishermen than does the board of directors of the credit unions in the home community of the fishermen. I think that was perhaps proved by the fact that has been stated here so often that the fishermen's credit unions are now to a large extent doing without government guarantee what they are presently asking to be allowed to do with the same type of guarantee that is going to be given to a bank.

There is no question that the credit unions, at least those in fishing communities, want to come in under this Act. They are all represented here today and are asking to come in. As I understand it, they would not want to come in if it meant they were going to become subject entirely to federal distribution in so far as charters, licenses and so forth are concerned. However, I do understand that if they do come in they are willing to be subject to such form of federal audit as to their assets and liabilities, profit and loss statements and so forth on very much the same basis as do banks and insurance companies and other bodies of a financial nature dealing under a federal Act.

I might also mention that one of the difficulties that they and other lending institutions might encounter in connection with possible losses has largely been taken care of now by the introduction and passing of the Fishermen's Loan Act.

I propose, Mr. Chairman, to move an amendment a copy of which I shall send up to you and I am going to read it to the committee at this stage because I do not know at what stage I should move it and because it will affect eight out of the 14 clauses in the Act. I should like to say in advance that I am not wedded to the actual wording of the amendment I am going to move, but I am wedded to the objective that I am trying to accomplish. I should like to say in my own defence that I had this amendment typed last evening before I had the privilege of reading Mr. McMaster's brief, particularly page 9 thereof. The amendment I propose to move is: *That Clause 2 of the Fishermen's Improvement Loans Act be amended by adding thereto as Section (i) 1 "lending institution" means a loan, insurance, trust or other company or corporation, trustee of trust funds, building society, credit union, or other cooperative credit society, authorized to lend money on the security of real or immovable property, which shall be designated by the Governor-in-Council as a lending institution authorized to make loans under this Act. That there be inserted after the word "bank" wherever it appears in Sections 3, 4, 6, 7, 9, 10, and 11 of the said Act, the words "or lending institution".*

The CHAIRMAN: Mr. Applewhaite, do you mind reading the amendment again slowly for the benefit of the committee?

MR. APPLEWHAITE: If I might put the lead in in my own words, it is that the definition section be amended by adding thereto the following definition—"lending institution" means a loan, insurance, trust or other company or corporation, trustee of trust funds, building society, credit union, or other cooperative credit society, authorized to lend money on the security of real or immovable property, which shall be designated by the Governor in Council as a lending institution authorized to make loans under this Act. The rest of my amendment would simply have the effect of inserting the words "or lending institution" wherever "bank" appears in the Act except in section 8.

If I may speak to this amendment for a moment I would like to explain first that this lengthy definition I have given of "lending institution" I took from the old National Housing Act as a precedent because I thought it advisable that if we were going to extend the Act at all it should be extended in the same form as the other financial loan Acts in our own statutes. All I have added to that definition are the words, "which shall be designated by the Governor in Council as a lending institution authorized to make loans under this Act."

I have put in the words "Governor in Council" rather than "the minister", which I see appears in Mr. McMaster's brief, not only because the minister as defined under this Act is not the Minister of Fisheries but because under section 7 of the Act it is the Governor in Council who has the authority to make regulations under the Act. I have not left the word "bank" included in my definition because I do believe that banks are in a class apart in so far as financial institutions in Canada are concerned as is very much evidenced by section 8 of this bill which indicates that certain legislation has to be passed to straighten up an Act of this kind viz. the banking legislation. The reason for doing this was explained in words which were almost taken out of my mouth—first we do not want to delay this bill and it is possible that drafting and so on will result in a delay if we insist on giving the credit unions the same authority we are offering to the banks as of now, and second we do not necessarily want to wait to bring credit unions in until sometime when it is decided to reopen the Act on the floor of the House of Commons. That can only be done of course when parliament is in session and it is not done every year in any event. By making the provision whereby the governmental authorities can look into this question and investigate the credit unions either individually or by classes and then come to a conclusion they can at such time as they see fit take action to bring the credit unions in under the Act and if they read the minutes of this committee meeting as they doubtless will I think they will find that there is a pretty general demand that this be done. Some objections might be taken to this action. One of them, of course, would be the old argument, "Well, it has not been done before; it does not appear in the Farm Improvement Loans Act or the National Housing Act," or something to that effect. It does, as a matter of fact, appear in the National Housing Act.

However, Mr. Chairman, I would like to say that there was a Farm Improvement Loans Act and other legislation of that kind on the statute books for years before anything was done for fishermen and if for once in the history of Canada the fishermen should be a step ahead why on earth should they not be? From a practical point of view surely the experience which might be gained under an experiment of this kind might prove very useful and people might wish to open the possibility of extending similar privileges to farmers and other credit unions. The result will be to enable a certain amount

of financing for the benefit of fishermen to be done with the fishermen's own money. The result will also be to enable the fishermen's own money to be loaned to fishermen at a rate not exceeding 5 per cent on major long-term loans, and the following sentence from the Prince Rupert Credit Union's letter to the Minister of Fisheries is, I think, worth reading into the record at this point: "We also feel that if there are any special privileges that are going to be granted to the banks in making such loans, the same privileges should be granted to the credit unions". I think that is legitimate but I do not think it is enough in itself apart from prestige and the desire to rank with banks. There is the practical argument in favour of this measure that the fishermen's credit union people are those who know the credit needs and the credit liability of everybody in their area who is engaged in fishing as the best bank branch manager could not possibly know them. They have pioneered in this work and they have experience in this type of work far ahead of any chartered bank. Therefore they should be given an opportunity to continue the work they have done so well, but to continue it with the same type of government guarantee which we are now offering to the banks. Therefore, either now or at such time as you decide is in order, Mr. Chairman, I wish to move the amendment which I have read.

The CHAIRMAN: Mr. Macdonnell.

Mr. MACDONNELL (*Greenwood*): Mr. Chairman, I think we have all had a useful experience today in hearing about the very interesting type of business which has been carried on by credit unions and which has impressed us for two reasons: first of all, because it has been carried on so efficiently, and secondly because it met such an urgent need, in what seems to be such a natural and effective manner. I think probably everyone in this room hoped this morning that there might be some way found to grant the request which the credit unions have made and that they be included in the legislation. I know that was my own feeling certainly and while I realized that there was some constitutional difficulty, nevertheless I hoped that it might be got over.

I am very happy indeed at the thought of an amendment which would include the credit unions, but I find myself greatly surprised at the scope of this amendment which includes trustees and trust funds. I take it that whatever these loans will be it is not at all clear that they will come within the definition of trustee funds. There is a reference to insurance companies, to trust companies, to building societies. Indeed almost all of those referred to here in addition to the credit unions surprise me and at first flush seem to me to be unnecessary. So far as I know, these people have not asked for it. My initial impression is: why do we need to clutter it up in that way? I am not overlooking the fact that there is a qualifying phrase later on which would permit the governor in council to designate what is a lending institution, but I still raise the question whether it is natural to take in this wide range and include all these people.

I have one further comment: if in fact the minister has had no chance to survey this, and if it comes to him as it did to me as an entire surprise, I mean the wording of it, I would suggest that we take some little time on it, even if it has been considered, and if we are not going to get a definite recommendation from the government on it, that we should wait in order to give a chance to the department concerned to consider this important matter.

Let me repeat: every man in this room, so far as I could judge at this morning's meeting hoped some way could be found to grant the request of the credit unions, I strongly urge that we consider carefully whether we are doing it in the most sensible way in relation to the amendment. I hope we may hear an expression of opinion from the government.

Mr. ASHBOURNE: Mr. Chairman, I do not want to take up the time of the committee, but in view of the fact there was no representation from Newfoundland, and no brief from Newfoundland presented to the committee either this morning or this afternoon, I would like to say, although I have not received any representation whatsoever from any fishermen or credit union body in Newfoundland, or from any cooperative—yet I would like to go on record as saying that I support the representations which have been made today to this committee. These people have made out a good case and the briefs have been well prepared and are very informative. And I want to go on record as being in favour of the amendment as presented by Mr. Applewhaite.

We have heard from the Maritime areas both in the Pacific area as well as in the Atlantic provinces, and I think the fact itself that these credit unions, as already pointed out, have pioneered this field, and have been of such good service and benefit to the fishermen in hard times and also in these more prosperous times that they should have accorded to them the opportunity so that their funds can be invested. Of course I know that the resources and the financial standing of these credit unions have to be investigated in order to ascertain if they are in a sound financial condition and in good standing. But having ascertained their stability after due examination regarding their reserves and so on, I think that the amendment is a good one, particularly so because in the Maritimes and in the Atlantic provinces while we have banks down there, Canadian chartered banks, yet there are not banks in every locality, and in a good many localities there are groups of fishermen who would be put to certain expense if they had to go to the bank in order to put their case and in order to get these necessary loans. I think that the credit unions having been in the field so long should be extended this privilege as has been moved in the amendment. I realize, in view of the need, the great effort put forth to provide the necessary funds to finance the requirements of the fishermen, and that this extension to the credit unions is a way of doing it and I heartily support the amendment.

The CHAIRMAN: Mr. Arsenault.

Mr. ARSENAULT: Mr. Chairman, I just wish to say that I share the views expressed in this amendment and I want to support it very heartily, but at the same time I do not know whether I would be in order at this moment in mentioning the fact that I intend to move a very slight sub-amendment. Perhaps my sub-amendment might be brought about through the sponsor of the main amendment and with your permission, Mr. Chairman, and with the agreement of the committee. I am much afraid that the words "credit union" do not give the right definition for perhaps the right legal translation of *Caisse Populaire*. A broad translation of *Caisse Populaire* would be "popular banks", and even at that popular banks is a phrase which is not to be found in the charter of the *Caisse Populaire* or in any of their documents. They simply use the words "*Caisse Populaire*" which are not translatable, because the *Caisse Populaire* works on a different basis than credit unions, and they are functioning under a different type of legislation. While their aim is the same, the *Caisse Populaire* stands towards a credit union in a similar position that a Christian church of one denomination would stand towards another Christian church of another denomination. The aim is the same, but they are not working under the same basis. Therefore I would like to move a sub-amendment on the fifth line right after "credit union", that the words "*Caisse Populaire*" be inserted.

Mr. APPLEWHAITE: I would be very agreeable.

The CHAIRMAN: I think that is all right.

Mr. CAMERON (*Nanaimo*): Mr. Chairman like all the other members who have spoken, I express my support and I know the support of my group in the House for this proposed amendment to include credit unions. But like Mr.

Macdonnell I find myself a little puzzled as to the necessity for including quite such a variety. I gathered from what Mr. Applewhaite said that he had taken the wording from another piece of legislation. I can understand the motive or idea that if you have a precedent, you are more likely to get your way. But I think it is likely to cause some unnecessary confusion to have all these other institutions mentioned, and my chief objection to it is this: that it cuts the ground from under the most powerful argument which Mr. Applewhaite raised with regard to the desirability of including credit unions, that the local people in a cooperative organization know better than any branch manager or any manager of a loan company or of a trust company or of an insurance company could know, what are the relative risks.

So I would like to ask Mr. Applewhaite to consider eliminating this wide variety of lending institutions he has listed here and to reduce it to the credit union, *caisse populaire* or other cooperative credit societies. I think that that would cover all the types of things we have in mind.

Mr. MICHENER: Mr. Chairman, in agreeing with what has been said about the merits of this case, I should like to make some comment on the amendment which is proposed. I am sure we all want to do nothing which would in any way discourage the fishermen's credit unions or cooperatives in the work they are doing. That is the case we have heard before us and it seems to me if the amendment were limited to its real purpose it would be unobjectionable and I hope the minister who is responsible and his parliamentary assistant will find the appropriate words. I would like to add to the objections already made that the definition has been taken from a Housing Act and limits the loaning societies to those which have power to loan on real and removable property which is not the principle of fisheries loaning; we are speaking of loaning on ships and gears and I am not sure whether they would be removable property. If the amendment were simplified to lending institutions, the lending institution means, I would say, a fishermen's credit union. I do not know why we need say more than we intend. It seems to me in regard to the argument of Mr. Cameron and Mr. Applewhaite that these credit unions are in a position to know what loans can be made to advantage and if it were limited to fishermen's credit unions, *caisse populaire* or credit societies, which may be designated by the minister, it seems to me we would then have what the committee as a whole seems to desire without doing any harm.

In fact I think there would be some harm in inviting trust companies and others who have no experience with fishermen and their habits to get into this business. It would be perhaps destroying on the one hand what we are trying to help the credit unions do.

Hon. Mr. SINCLAIR: Mr. Chairman, I do not want to influence the members of the Banking and Commerce Committee, but I must say that I join in the observations of Mr. Cameron, Mr. Macdonnell and Mr. Michener. As you remember this meeting was held because it was announced we would have these hearings before the Banking and Commerce Committee so that all groups interested could come here and say what they wished about the bill. There are no loan companies or trust companies here but there are the credit unions.

The second point is that to clutter up the Act with these other companies is not really of any importance because I think it is highly unlikely that any trustee of a trust fund would put those funds on a loan as risky as a fisherman's small boat or weir or trap. Building societies are specifically barred because the Fisheries Improvement Act restricts loans to fishing and boats and fishing gear either at sea or on the shore. It may be that three years from now when this first stage of the Act expires and the Act is renewed it will be possible

to extend this Act as the Farm Improvement Act was extended from farm equipment to farmers' homes. But at the moment the only group who are concerned in the field and who want to be included are credit unions.

As far as Mr. Michener's point about fishermen's credit unions is concerned, I think that would be rather hard to define because while there are some credit unions composed completely of fishermen yet there are others that are not.

I must confess I was very impressed by Mr. McMaster's suggestion that the amendment just be: lending institution means bank as defined by the Bank Act or other lending institution designated by the minister and approved by the Governor in Council. It may be true that there are members who do not like to give powers like that to a minister but the first three years of this Act will be like the first three years of the Farm Improvement Loan Act, a time of testing and experience. I think we can rely on the fact that the Minister of Finance is not going to expand this field in the first three years very much beyond either banks or credit unions. For this reason I would suggest that the amendment of Mr. McMaster, or words like that, would be more helpful.

I think it is important if the members do want the government to consider the inclusion of the credit unions to have some amendment here. If the bill goes forward as it is, obviously the Minister of Finance is going to have to restrict his loans to banks. I would suggest a more general amendment along the lines proposed by Mr. McMaster could serve the proposal advocated by the credit unions better than a long amendment such as this is which is after all modelled on housing legislation and not on fishermen's loan legislation.

The CHAIRMAN: Gentlemen, will you follow me for a moment on what is suggested following the discussion and following some guidance from an official of the Department of Finance. Lending institution means a credit union, *caisse populaire*, or other cooperative credit society authorized to lend money on the security of real or removable property which shall be defined in the regulations referred to in section 7. Section 7 provides for the regulations.

Mr. PHILPOTT: You have not mentioned banks in there.

The CHAIRMAN: The banks are under supervision now.

Mr. MICHENER: You missed my point there, leaving in that "real and removable". I do not think that any credit union has that power at all.

The CHAIRMAN: I will read the amendment:

Lending institution means credit union, *caisse populaire* or other cooperative credit society which shall be defined in the regulations referred to in section 7.

That should meet everybody's views.

Mr. BENIDICKSON: It would be most awkward to have an order in council for approving every individual union.

Mr. MACDONNELL (*Greenwood*): Would it not be natural to have the banks in there?

The CHAIRMAN: The banks are dealt with separately. Have you any objection to that, Mr. Applewhaite?

Mr. APPLEWHAITE: No. As I said I was not wedded to the wording but was wedded to the principle. If we are going to do it by legislation it is fine with me.

Mr. FLEMING: Mr. Chairman, I think the suggestion you made now meets the needs of the situation but there is one condition which Mr. Macdonnell draws attention to. What you have proposed is a definition of lending institution. If you are going to define it in that form and not include the bank in the lending institution then you must insert some of the wording which Mr.

Applewhaite has suggested, that there be inserted after the word "bank" the words "lending institutions" and so on. Would it not be simpler simply to take out the word "bank" wherever it appears in the Act and include bank within the scope of the definition of lending institution that is now proposed and then use the expression "lending institution" throughout the Act. Otherwise, I think we will have to take another look at this because the word "bank" appears throughout the Act in about 20 different places in a rough count. I would suggest that the draftsmen should have a better look at this. I take it we are in agreement as to the way we are going to go about it. In other words we are eliminating all these various types of lending institutions which have not asked to be brought in and it would only clutter up the Act if they were brought in and you are taking out the expression Mr. Michener took exception to. You are meeting I think what would be the objection some of us might have had to the proposal of leaving it too wide open in specifying that the *caisse populaire* and other cooperative credit societies are to have a status accorded to them by the words of the Act. I think we ought to insist those words should be in. I take it, we are pretty much all in agreement on what shall be the scope and the purpose of the amendment. The question is whether "bank" should be included in the definition of lending institution and simply use that throughout the Act in lieu of the present expression "bank" or leave the word "bank" out of the words "lending institution" and say "bank or lending institution." It seems to me that that is a thing for the draftsmen to take a look at because it will make necessary several amendments in the bill.

MR. APPLEWHAITE: We want the Act to go into effect at the earliest possible date. The minute the Act is given royal assent the banks are authorized to go ahead and it may take some little time for the Governor-in-Council to say what classes of credit unions and lending institutions he will prescribe. I also think that banks being a different type, in being chartered banks, that it should be "banks and/or lending institutions".

MR. QUELCH: Mr. Chairman, I think the credit unions made an excellent case this morning and I will certainly support it. I think that the suggestion you made respecting this agreement would be quite satisfactory. I would certainly not think it wise to clutter up the Act with all the different institutions.

THE CHAIRMAN: The question of making the amendment in Mr. McMaster's terms was canvassed and found unacceptable, since it presented some new problems. Mr. Applewhaite made reference to it and felt this was the better way and more likely to find acceptance by the Department of Finance than the other one. For that reason it is being done this way.

MR. HENDERSON: Would you read that amendment again, please?

THE CHAIRMAN: "Lending institution means the credit union, *caisse populaire*, or other cooperative credit society which shall be defined in the regulations referred to in section 7 as a lending institution authorized to make loans under the Act," and then there follows that there should be inserted after the word "bank" in the various sections the words "or lending institution".

MR. MACDONNELL (*Greenwood*): Mr. Chairman, we are in the happy position of being, it would seem, unanimous. Now all we have to do is to draft this section, but 40 people cannot draft a section. It should be turned back to the expert draftsmen. If we try to do this here in a hurry we are sure to make some mistake. It is a job for one or two people sitting down and going over the matter quietly, and surely the world is not going to end if we adjourn until tomorrow morning and have something which we can all accept.

The CHAIRMAN: Let us put it this way; we have agreed to that in principle. Let us deal with the Act, and when we come in tomorrow morning we will deal with that particular section after having it redrafted.

Mr. FLEMING: The important thing is that we are agreed in principle, and the amendment will have to be reviewed—

The CHAIRMAN: There is no reason why we should not deal with the bill in the interval.

Mr. MACDONNELL: (*Greenwood*): Is that the most sensible thing? We cannot if things are to be changed.

The CHAIRMAN: The estimates of the Department of Fisheries are on tomorrow—

Mr. FLEMING: Let us meet at 10 o'clock.

The CHAIRMAN: I do not wish to have a debate in here and then another in the House.

Mr. FLEMING: There is a problem there. How long would it take for the law officers to redraft this section? We could meet at 8 o'clock if they could do it in the meantime.

An hon. MEMBER: It is Wednesday night.

Mr. FLEMING: I am prepared to come back here.

Mr. CAMERON (*Nanaimo*): I think Mr. Fleming's point is well taken. If we pass all those sections we might pass one that is going to be amended.

Hon. Mr. SINCLAIR: I think the suggestion to leave this to the Department of Justice to redraft is an excellent one because there will have to be changes in the section on the amount of the guarantees. I do not know why we have to hurry this on tomorrow. I undersand that the session is going to last two weeks more, according to prominent conservatives.

The CHAIRMAN: Would you like to have this discussed on your estimates tomorrow for a couple of hours?

Hon. Mr. SINCLAIR: I do not think they will. I think most of the views have been expressed.

The CHAIRMAN: They may spend two hours congratulating you.

Hon. Mr. SINCLAIR: What is wrong with that?

The CHAIRMAN: We will adjourn until 10 o'clock tomorrow morning.

EVIDENCE

THURSDAY, June 23, 1955.

10.00 A.M.

The CHAIRMAN: I see a quorum, gentlemen. You have before you the suggested amendment:

"SUGGESTED AMENDMENT TO:

Bill No. 452, An Act respecting Loans to assist Fishermen engaged in a Primary Fishing Enterprise.

(1) *by adding immediately after subclause (i) of Clause 2 the following new subclause (j):*

(j) "lender" means

(i) *a bank, and*

(ii) *a credit union, caisse populaire, or other co-operative credit society designated by the Minister as a lender for the purposes of this Act;*

(2) *By relettering subclauses (j), (k), (l) and (m) as (k), (l), (m) and (n) respectively.*

(3) *By deleting the word "bank" wherever it appears in clauses 3, 4, 6, 7, 9, 10 and 11 and substituting therefor the word "lender".*

(4) *By deleting the word "banks" where it appears in subclause (b) of Clause 6 and substituting therefor the word "lenders".*

You also have before you the further suggested amendment to clause 6 of the bill. The purpose of that, of course, is to increase the amount from 15 to 20 but to make \$10 million available for each group. As we come to the clause we will deal with it.

We are now at clause 1 and if there is no objection it will carry.

Carried.

Clause 2.

Mr. APPLEWHAITE: I will move the amendment.

The CHAIRMAN: Mr. Applewhaite moves the amendment. You have the amendment before you. Shall it carry?

Carried.

Mr. APPLEWHAITE: I will move the amendment in each case.

The CHAIRMAN: Clause 3. There is an amendment to clause 3 which you are moving, Mr. Applewhaite?

Mr. APPLEWHAITE: Yes.

The CHAIRMAN: There is an amendment to clause 4.

Mr. APPLEWHAITE: Yes.

The CHAIRMAN: There is no amendment to clause 5. There is an amendment to clause 6 and may I read it for those who do not have a copy:

"By substituting for subclause (b) of clause 6 the following:

(b) to make any payment

- (i) to a bank in respect of loss sustained by it as a result of a guaranteed loan made after the aggregate loans made by all banks exceeds \$10 million or
- (ii) to any other lender in respect of loss sustained by it as a result of a guaranteed loan made after the aggregate principal amount of the guaranteed loans made by all such lenders exceeds \$10 million."

Mr. APPLEWHAITE: First of all, Mr. Chairman, that means that subclause (4) of the first amendment is withdrawn?

The CHAIRMAN: Yes. Subclause (4) of the first amendment is out.

Mr. FLEMING: Mr. Chairman, I gather that the effect of this is to reduce the over-all amount available for the banks from \$15 million as in the bill to \$10 million as proposed in the amendment.

The CHAIRMAN: Would you repeat that please?

Mr. FLEMING: The effect of the proposed amendment is to reduce the total loans made by all banks having loans under this Act from \$15 million to \$10 million?

The CHAIRMAN: That is quite right.

Mr. FLEMING: At the same time on the other side of the scale you have provision for making up to \$10 million available for the other lenders. I gather from what was said yesterday they are not so likely to use up the full \$10 million in the second group, but I am wondering whether the net effect of the amount might be to reduce the over-all sum proposed in the bill; namely \$15 million.

The CHAIRMAN: I am informed that the banks think that is adequate. The \$15 million was a pretty high figure and the \$10 million meets the view of the banks.

Mr. FLEMING: Having regard to the fact that this is remedial legislation and need was made out for it, I think we would not want to see any step taken now which is going to impair the efficacy of the bill.

The CHAIRMAN: The departmental view is that the \$10 million is adequate. That view is shared by the banks. The department will raise the amount if the need is there. That is my information.

Mr. MACDONNELL (*Greenwood*): Have you before you clause 6 as it will read?

The CHAIRMAN: When you reach the word "and" (b) will read:

To make any payment (i) to a bank in respect of loss sustained by it as a result of a guaranteed loan made. . . ."

I just added the word "made" in there.

Mr. MACDONNELL (*Greenwood*): clause (a) remains as it is?

The CHAIRMAN: Yes. (b) is the one we are changing.

Mr. MACDONNELL (*Greenwood*): Does clause (a) remain as it is or does "bank" become "lender"?

The CHAIRMAN: "bank" becomes lender."

Mr. APPLEWHAITE: In so far as the over-all sum is concerned it is still in the nature of a revolving fund.

The CHAIRMAN: Yes.

Mr. APPLEWHAITE: If the loans the banks made were at the maximum they could have 2,500 \$4,000 loans outstanding at one time and as they were paid off the funds would continue to be available. I do not want to be too technical, but can we carry clause 6?

The CHAIRMAN: It is a recommendation. That is all we can do.

Mr. FLEMING: I have a question on clause 5. The power is given by clause 5 of the bill to the Governor in Council to terminate the Crown liability in respect to these loans in any locality on proclamation, and then there is power given in subclause (2) to revise the lending powers by a further proclamation. What is the type of situation that is envisaged which has given rise to that?

The CHAIRMAN: This section was taken from the Farm Improvement Loan Act. They have in mind the suspending of loans on one coast or the other where they may be overloaned.

Mr. FLEMING: If that is the case it strikes me that it is not a good enough reason. After all, what we are dealing with here is a need and the bill is intended to provide measures to meet a need of credit for fishermen. Just because the lending might become heavy on one coast and not so heavy on the other does not seem to be any reason for suspending the lending provisions of the Act in either place. I think that if the lending is heavy on one coast it points to the fact that the need is great and the benefits of the Act are great accordingly. If the lending is light on the other coast it seems to indicate the need is not so great. That is no reason for suspending the provisions of the Act in either case. I am not suggesting there would be an attempt to take discriminatory action on power of this kind but it would put power in the hands of the cabinet if it chose to single out some particular area and say there will be no more loans in that area. I question whether that type of provision is going to commend itself to the members of the committee who are already persuaded that the need exists and are anxious to make this matter effective to meet the need.

The CHAIRMAN: May I say to the committee that that same section is in the Farm Improvements Act and in the Housing Act. It gives the Governor in Council a certain amount of flexibility in the early experimental stages. At this stage we would be wise to leave it in and give the department the opportunity to experiment a bit with it.

Mr. FLEMING: On clause 5 if there is no better explanation to be given than we have heard, I want to say that I am against clause 5.

The CHAIRMAN: I will draw the minister's attention to what has been said here and ask him to say something about it when it reaches the floor of the House. Does clause 5 carry?

Mr. FLEMING: On division.

Subclause 6 (a), as amended, is carried and we will make a recommendation with respect to 6 (b).

Clause 7—Regulations—carried with the amendment. There is an amendment to clause 7.

Clause 8.

Mr. MACDONNELL: There is a question with regard to section 8. Has the Department of Justice considered carefully whether there is anything in that section which would be needed for the use of the other lenders? Is the chairman quite clear that if this is confined to the banks there will be nothing wanting in the power of the other lenders?

The CHAIRMAN: This bill has come from the Department of Justice.

Mr. MACDONNELL: I appreciate that this is to meet the deficiency in the bank powers, and maybe it is the complete answer.

The CHAIRMAN: That is what the officials tell me.

Mr. APPLEWHAITE: I think the incorporation of other lenders is all under provincial statutes and therefore the federal statute has not put any restriction on their powers.

Mr. FLEMING: I take it that section 8 is after all an empowering section. This does not add something to the powers of the banks, nor does it take anything away and as far as the credit unions, the *Caisses Populaires* and credit societies are concerned; they will have to find their powers under provincial letters patent and the provincial statute under which they receive their letters patent and the minister in deciding whether they qualify under the Act to be designated as lenders under our new definition of lenders in clause 2 will have to look at the powers of each of these.

The CHAIRMAN: The department agrees with your views.

Clause 9 with amendment is carried.

Clause 10 with amendment is carried

Clause 11 with amendment is carried.

Clause 12.

Mr. FLEMING: Mr. Chairman, I have one question with regard to the report in clause 12. Will three months be required to complete that report? That would mean that in an ordinary session of parliament the report would not be available until July 1st with the consequence that it would not come before parliament until the following session, by which time it would be at least 10 months stale.

The CHAIRMAN: That is the same as the Farm Improvement Act, and the same as the Veterans Business Loans Act.

Mr. FLEMING: That is not a good enough reason, because here you are in a smaller field. We are plagued so often with reports which are too stale to be very much help to us and under the provisions of clause 12 that the report shall be made within 3 months of the end of the fiscal year, it means the 30th of June. We are not always going to be here on the 30th of June.

Mr. MACDONNELL (*Greenwood*): The point is, can they without too great an inconvenience present it within a shorter time?

The CHAIRMAN: The department points out that this really is a scattered field which makes it more difficult and that this is the normal term which they have used in the other Acts. For that reason they believe it is applicable here. There is something to be said for that view.

Mr. FLEMING: Will you ask the minister if he would take a look at this and reconsider it before the bill goes to the House?

The CHAIRMAN: That is two matters which the minister will have to look at.

Clause 12 carried.

Clause 13 carried.

Clause 14 carried.

Mr. APPLEWHAITE: On clause 14 I would just like to mention, Mr. Chairman, that the fact that fishing starts in most areas in the Spring should be borne in mind. The minister and his advisers should also bear in mind the fact that if fishermen and others are to benefit from this Act in the coming fishing

season it should be proclaimed in time for them to get their improvements under way during the late Fall and early winter. A delay in the proclamation of this Act for a few months could delay its coming into effect for a year and a half.

The CHAIRMAN: That is one of the things I have in mind and when the estimates are up today you will have the opportunity to make those observations to the Minister of Fisheries, and through him to the Minister of Finance.

Mr. FLEMING: Would not those remarks be more properly be made on the bill when it comes up?

The CHAIRMAN: In any event I intend to bring to the minister's notice the observations which Mr. Fleming made on clause 5 and clause 12, and also the observation made by Mr. Applewhaite on clause 14.

Shall the title carry?

Carried.

Shall the bill as amended carry?

Carried.

Shall I report the bill as amended, with the recommendation in respect to clause 6?

Carried.

That is all for the time being. We have two more bills which have been referred to the committee. We will have a meeting on Tuesday, and that will be the work for the session. We will now adjourn until early on Tuesday morning.

APPENDIX "A"

Representations from

1. Prince Rupert Fishermen's Co-operative Association,
Prince Rupert, B.C.
2. Gulf and Fraser Fishermen's Credit Union, Vancouver, B.C.
3. Prince Rupert Fishermen's Credit Union, Cow Bay, B.C.
and Prince Rupert, B.C.

APPENDIX "A"

PRINCE RUPERT FISHERMEN'S CO-OPERATIVE ASSOCIATION

P.O. Box 340
Prince Rupert, B.C.
JUNE 17TH, 1955.

The Honourable James Sinclair,
Minister of Fisheries,
Ottawa, Canada.

Dear Mr. Sinclair:

We understand that a bill has been introduced in the House of Commons to provide for an Act respecting loans to assist fishermen engaged in a primary fishing enterprise. This Act seems to be similar to the one already in effect to assist people engaged in an agricultural enterprise.

Our association wishes to express its great satisfaction with the intent of this bill and to add its wholehearted support to it. Considering the importance of the fishing industry to the whole Canadian economy we feel that the time is indeed opportune for the initiation of such legislation.

However, there appears to us to be one serious omission in this bill. That is in the failure to include fishermen's credit unions, together with the chartered banks, as recognized financial institutions to which the government is prepared to extend the guarantee for loans provided in the proposed Act. We would most strongly urge that the government consider an amendment to the bill, providing that the same guarantee can be given to fishermen's credit unions as given to the chartered banks under the terms of the proposed Act.

We realize that it has been argued that the credit unions do not come under federal control and are possibly not as rigorously controlled as are the chartered banks. Experience has shown, however, that credit unions have had a very good record and their losses have been minor. In this regard it is well to point out the record of fishermen's credit unions in British Columbia that were closely allied in their operations with the Fishermen's Co-operative Association. As you know, this association is in dire straits at the present time and indeed it is likely that it will wind up its affairs during the next year or two with a considerable loss resulting therefrom to the shareholders of the co-operative.

The Gulf and Fraser Fishermen's Credit Union of Vancouver and the West Coast Credit Union of Victoria have both been very closely connected with the Fishermen's Co-operative Association and were continuously making loans to members of the co-op, with payment in many cases being based on final payments to be received from the co-op. As you probably know, the co-op was unable to make any financial payments for its 1951 and 1952 production, and this posed a serious problem for the two credit unions in question. However, we are happy to report that both credit unions have survived this situation, and have not only survived it but have come through it with what could be termed "flying colours". Statistics show that the loss of the credit unions of B.C. have not exceeded 1 per cent.

If the type of control that is presently available through the provincial government does not seem to be sufficient to meet with the requirements of the legislation in question we feel sure that the credit unions would be glad to co-operate in any way possible with the federal government and the provincial government in removing such objections.

Again may we most strongly urge and respectfully request your full support for an amendment to this bill that will make it possible for the fishermen's credit unions to have the same guarantee as will be available to the chartered banks.

Prince Rupert Fishermen's Co-operative Association
(Sgd.) K. F. Harding, Secretary for the Board of Directors.

No. 2

Charter No. 35

GULF AND FRASER FISHERMEN'S CREDIT UNION

FORD BUILDING, 193 EAST HASTINGS STREET,
VANCOUVER 4 B.C.

JUNE 16th, 1955.

The Hon. James Sinclair, M.P.,
Minister of Fisheries,
House of Commons,
Ottawa.

Dear Sir:

It is with great interest that we read of your intention to introduce legislation to assist fishermen to obtain money for fishing operations.

Our credit union was organized for this express purpose and for the past fourteen years we have made a large number of loans, most of them to fishermen. The main purpose was to enable these fishermen to obtain their own boat and gear and become independent.

We have had very good experience in dealing with fishermen and have every reason to believe that we can continue to serve them well. We hope, therefore, that it will be possible for you to include credit unions under this legislation.

Since our credit union was incorporated in December of 1940, we have made loans totalling over \$2,500,000. In that time, despite some very serious setbacks in the industry, we have written off less than \$5,000, which is slightly less than two-tenths of one per cent of our money loaned.

During the past year, we have made loans amounting to \$485,000. Of this amount, approximately \$150,000 was loaned to fishermen for the purpose of purchasing or repairing boats or obtaining gear. Up to the end of May of this year, we have loaned a further \$254,000. \$86,000 of this amount was used for the purpose of repairing or re-financing of boats, installation of new engines, etc., or the purchase of gear. In other words, approximately one-third of our money is being loaned out for the purposes your legislation is designed to cover. So far this year, only two of our loans to fishermen have been in excess of \$4,000.

From these figures you will readily understand how interested we are in your proposed legislation.

At the present time, all our money is loaned out at a straight 6 per cent per annum on the unpaid balance. We insure all our loans at a cost of .08 per cent to us. This charge is absorbed by our credit union, so that the net return on all our money is very slightly over 5 per cent.

It would be possible, therefore, for us to make loans to fishermen at a straight 5 per cent interest and allow the fishermen the option of carrying the insurance on his own loan, if he so desires, at an additional cost to himself.

Representations will be made on behalf of the credit union movement as a whole, asking that credit unions be brought into the picture as approved lending institutions. We hope that you will give every consideration to these representations and do your utmost to make it possible for credit unions, such as ours, to take advantage of the legislation and thus increase the service that we are able to give to our members.

Yours very truly,

GULF AND FRASER FISHERMEN'S CREDIT UNION

(SGD) Jos. H. Corsbie, Treasurer.

No. 3

PRINCE RUPERT FISHERMEN'S CREDIT UNION

COW BAY, B.C., PRINCE RUPERT, B.C.

JUNE 17, 1955.

The Hon. James Sinclair,
Minister of Fisheries,
Parliament Buildings,
Ottawa, Canada.

Dear Mr. Sinclair:

There has been a considerable amount of publicity on the proposed guaranteed loans for fishermen in the local press and elsewhere during the past two weeks. This naturally interests us a great deal as our group consists almost entirely of fishermen and members of their immediate family.

We have about two thousand members in our credit union who have accumulated savings that at times reach a total of over two million dollars. These savings of course fluctuate up or down according to the period of the year when earnings are made by our members.

Since our credit union was organized in 1940 we have made over 6,500 loans to our members for a total of about \$8,500,000. A fairly large percentage of these loans were made to fishermen for financing boats, gear, engines, etc., or loans of the type the government is proposing to guarantee on behalf of the chartered banks. Our total loans written off since incorporation amounts to a little over \$7,000. This we feel is an enviable record, especially when one stops to consider our inexperience in the early years.

We feel that our fishermen's credit unions in B.C. and in the maritime provinces really pioneered the field of loans to fishermen for purposes described in the proposed changes in the Bank Act. We also feel that if there are any special privileges that are going to be granted to the banks in making such loans the same privileges should be granted to the credit unions.

We realize that the banks come under federal supervision while credit unions come under the various provincial governments but do not consider this an insurmountable difficulty.

I have read an excerpt from a speech delivered by yourself in the House of Commons on June 6, 1955 and am very much impressed with the knowledge you have of the credit union movement.

Anything that you can do on our behalf will be very much appreciated.

Yours truly,

PRINCE RUPERT FISHERMEN'S CREDIT UNION

(SGD) George Viereck, Secretary-Treasurer

c.c. Mr. E. T. Applewhaite, M.P.

Mr. Gordon Smith, Mgr. Credit Union National Ass'n.

Mr. Breen Melvin, Sec. Co-op Union of Canada

APPENDIX "B"

BRIEF OF

CREDIT UNION LEAGUE OF THE PROVINCE OF BRITISH COLUMBIA

APPENDIX "B"

BRIEF TO THE COMMITTEE ON BANKING AND COMMERCE,
PARLIAMENT OF CANADA

RE

FISHERIES LOAN IMPROVEMENT ACT—BILL NO. 452

These representations are made on behalf of the *Credit Union League of the Province of British Columbia* which represents all but 4 of the 307 credit unions incorporated in that Province. The last financial and statistical report of the Inspector of Credit Unions for British Columbia shows that the total assets of credit unions in the Province at December 31st, 1954 were \$35,428,-619.64, \$27,226,469.89 of this amount represented paid up share capital. This may give the Committee some picture of the size of the Credit Union Movement in B.C. If you compare the present assets with the total assets of credit unions in British Columbia in 1952 as shown in the 1954 Canada Year Book you will observe the growth of credit unions in B.C. In that year the total assets of credit unions in B.C. was approximately \$22,000,000.00, this represents a better than fifty percent increase in assets in two years.

Of these credit unions there are approximately eight on the West Coast of British Columbia which are predominantly fishermen's and which from time to time lend money on the security of fishing vessels and gear. Of these eight there are four of considerable size, the largest is Prince Rupert Fishermen's Credit Union which at the end of May had total assets of \$1,750,000.00, \$930,000.00 of which was represented by shares and \$650,000.00 by deposits, the balance being made up of reserves of various kinds. This Credit Union has since its incorporation in or about 1940 lent a total of \$8,500,000.00 to fishermen and their families. In total over 6500 loans have been made and of that number only 35 have been written off, in a total sum of \$7,337.59. At present it has \$1,470,637.00 out on loan. Of that sum only 2% are 3 months or more delinquent in repayment and all loans are secured. None of the loans of this Credit Union are secured on real property and a very large percentage are secured by vessels and fishing gear.

The next in size is Gulf & Fraser Fishermen's Credit Union in Vancouver which has total assets of \$959,925.00 of which shares total \$556,701.00. Since December 1941 this Credit Union has loaned \$2,520,000.00 of which only \$4,079.98 has had to be written off as bad debts. I am advised by the inspector of Credit Unions that of the \$803,000.00 they now have out on loan at most 1 to 1½% could be considered doubtful accounts. In the first 5 months of this year 31% of its loans were for the purposes of financing the purchase of boats, gear etc. and repairs and only 2 of these loans exceeded \$4,000.00.

There are two small fisherman's Credit Unions on which I have some figures available and which are engaged in this type of loaning. Ladner Credit Union at the mouth of the Fraser River has total assets of \$131,000.00 of which \$122,000.00 is share capital. It has loaned since 1946, a total of \$376,000.00 and has only written off \$1,352.69. Its present loans outstanding are \$121,000.00. West Coast Credit Union which services the fishermen on the isolated West Coast of Vancouver Island has \$259,000.00 total assets of which \$155,825.00 represents shares. It has lent \$1,300,293 since its incorporation in 1944. While its actual write offs have only been \$20.74 I am informed by the Inspector that approximately 5 to 7 thousand may be doubtful accounts. Its present loans are \$234,239.00.

These credit unions lend money on this type of security at the present time at 6%. All of them, out of the 6% pay for insuring the loan for the benefit of the member. In other words, if the member dies or becomes permanently incapacitated the loan is paid off out of this insurance.

It will be apparent from the above figures that for many years when other financial institutions were hesitant or in the case of the banks, unable to grant loans on this type of security, the Credit Unions have provided fishermen on the West Coast with loaning facilities. They have done so in large measure on the security of fishing vessels and gear at very reasonable rates of interest considering the fact that out of this low rate of interest they insured the loan for the benefit of the member. They have suffered negligible losses.

It is therefore naturally with some concern that the credit unions in B.C. have observed that Bill 452 fails to recognize the service which fishermen's credit unions have heretofore provided in this field and fails to give to them an equal opportunity with the banks to continue to serve the fishermen of this Province in just as favourable a position as the banks would be under the Bill. If, as indicated in previous debates in this House and in the speeches recently made in the H. of C. the members of this House have great admiration for the amazing pioneering work which the credit unions have done, we of the Credit Union Movement in British Columbia find it extremely difficult to reconcile this expressed admiration with the proposal not to include credit unions as authorized agencies under the Bill.

I am informed that in the House the Honourable the Minister of Fisheries in speaking with respect to the resolution stated:

Therefore in guaranteeing loans to the chartered banks we have the knowledge that we have very close control over the uses we are making of the taxpayers' monies. On the other hand there are many hundreds of credit unions across the country which are not under Federal control but under varying types of Provincial Legislation. We have no way, without intruding in the Provincial field of inspecting the facilities and management of these credit unions. I do not think it is reflecting on the Credit Union Movement at all to say credit unions are not quite as stable as chartered banks. Occasionally credit unions do get into financial trouble.

This was one of the reasons advanced by the Minister as to why credit unions were not included in the Bill. With the greatest respect to the Minister, and I might say in the Province of British Columbia particularly in the fishing industry, the Honourable the Minister of Fisheries is held in high respect, no one surely would suggest that just any credit union at all would be entitled to make loans guaranteed by the Government for the limited purposes of this Act and certainly there are thousands of credit unions who would have no opportunity to or interest in making such loans. The credit unions which are interested are those which have in their membership fishermen. Hence the number of credit unions with which the House would be concerned, if appropriate amendments were made to the legislation to permit loans to fishermen's credit unions, would be a relatively small number.

In the Province of British Columbia,* and I am sure in all of the other Provinces, the Provincial Governments maintain efficient inspection services whose primary concern is to obtain constant reports on the financial position of credit unions and to exercise supervision and control over them. I have conferred with the Attorney General for British Columbia and the Inspector of Credit Unions concerning the matter of this Bill and the representations which I am making here today and I am assured that the Inspector would both be authorized to and willing to provide the Minister, or such official of

the Federal Government as he or the Act might designate, first of all with a statement of his opinion as to the stability of any credit union desiring to be an authorized agency under the Act, and secondly with quarterly financial information concerning such credit unions.

It is true, as the Minister says, that Parliament must be concerned with the uses which are made of the taxpayers' monies. However, I would point out to the Committee that of the total amount of money loaned by the Credit Union to Fishermen under the Bill at most the Dominion Government would be liable for only 15% and the remaining 85% would be the monies of a large body of the fishermen themselves in their credit unions. These being the monies of hundreds of fishermen it is equally in the public interest that the Provincial Government be responsible to supervise and to make certain that these funds are protected.

Therefore to protect its interests we see no necessity whatsoever for the Dominion Government, if it is prepared to co-operate with the Inspectors of Credit Unions in the various Provinces, intruding into the Provincial field of inspecting the facilities and management of these credit unions. The Dominion Government could in the manner which I suggest satisfy itself as to the stability of the lending agency; place such limits as it sees fit on the use of the powers extended as to the guarantee; and exercise reasonable controls as to the extent of its liability without interfering with the full exercise of jurisdiction by the Provinces over credit unions.

As to the comment of the Minister concerning the stability of credit unions in relation to the Banks I would be less than frank if I did not acknowledge that there may be a small number of credit unions which are not as stable as we might like to see them but surely a certificate of the opinion of the Inspector of Credit Unions for the Province, together with a financial history and current financial statements would provide the Minister with reasonable and proper information upon which he could allow or discontinue the authority to a credit union to act as an authorized agency under the Bill.

Having regard to the history of the fishermen's credit unions for the past 15 years in the Province of British Columbia; to the service which they have performed, to their present stable condition and to the remarkable absence of losses it appears somewhat unfair because of the possible instability of a few of the 4,000 credit unions in Canada to question their stability. I have given you the figures with regard to the major fishermen's Credit Unions and can assure you that the total picture of credit unions in British Columbia shows a similarly stable situation. I feel certain that you will be impressed by them as I am.

I have already referred to the very light percentage of the total assets of Credit Unions made up of share investment in British Columbia 27 million out of 35 million. There is no greater evidence of stability of a corporate body than its risk capital. I do not hesitate to say that no other lending institutions in Canada have such a high proportion of risk capital employed i.e. 80%. Most of them have only 10 to 20% invested in shares and reserves and the balance represents borrowed money. This again is cogent evidence of the Credit Unions' stability.

The minister then proceeded with respect to the resolution to state:—

The second reason I recall was the fact that the type of security which must be taken to protect the taxpayers' money under this kind of legislation is in general a little different from that required by the credit union associations themselves. There is perhaps one point which we have missed. When the Government encourages the banks to go

into what is the riskiest part of fishermen's credit, that is loans based on their fishing gear and their fishing vessels they are taking on the most difficult borrowing and the borrowing on which there is the highest expectancy of loss off the shoulders of the credit unions.

I am sure that if the Minister had been provided with the figures which I have quoted to this Committee and had been informed of the full history of the fishermen's credit unions on the West Coast of British Columbia he would not have made that statement. As I have indicated from thirty to forty percent of the ten or fifteen million dollars which these credit unions have loaned to fishermen and their families in the past fifteen years have been on the very securities to which the Minister referred i.e. fishing vessels and gear. I have also indicated in the figures which I have given to the Committee that there has been written off against such loans a very small percentage of losses and there are an equally small percent of doubtful accounts. Unfortunately the figures which I have, include write-offs for all types of loans and not just for this type, but manifestly it is clear from these figures that the percentage of loss on this type of loan by the credit unions has been negligible—less than 2% on bad and doubtful accounts. I suggest to the Honourable Members of this Committee that these figures not only show that the fishermen's credit unions on the West Coast of this country are stable organizations but also show that they are organizations well adapted to loaning money on the basis proposed to be loaned under the Bill.

If I might be permitted to say so, I respectfully suggest that the reason that the losses of the fishermen's credit unions have been so low is because credit unions by their very nature are in the best position of any financial institution to determine the wisdom of making such loans and to enforce the payment thereof. The fishermen in a sense belong to a community of their own and they mostly live along side other fishermen. Like other human beings, fishermen might be prepared to avoid their liabilities to any other type of financial institution but they know that if they avoid their liabilities to the credit union that they are accountable to their fishermen neighbors who belong to the same organization and whose money they have had the use of. For this reason I suggest that if what this House is looking for is stability of administration and an assurance that the guarantee which it proposes to give not be called upon even to the full extent provided in the Statute, they should have greater regard to the actual loss history of credit unions and not to control. They could exercise no greater wisdom than to use the fishermen's credit unions to make such loans with reasonable safeguards through regular periodic reports from the Inspector of Credit Unions in the Province.

Now the Minister further suggested that if the banks took over this area of services to fishermen, which the credit unions have for the past fifteen years so efficiently provided, the credit unions would be free to devote their funds to other credit needs of the fishermen. The suggestion contained in the statement by the minister is that the fishermen's credit unions do not have sufficient funds to finance the needs of their members. I have to point out to this body that the fishermen's credit unions to which I have referred in the Province of British Columbia all have surplus funds during most, if not all, of the fiscal year. If they do not have surplus funds in the way of shares or deposits on hand they have the authority to and do in fact borrow money from B.C. Central Credit Union, a credit union owned and controlled by the credit unions of the Province of British Columbia. Rarely, if ever, have they felt the necessity to borrow to the limit of this statutory power. Whatever may be the situation with fishermen's credit unions elsewhere, in British Columbia,

Fishermen's Credit Unions do not lack of funds from which to meet the needs of fishermen who are their members. Having regard to the tremendous growth in assets in the credit unions in British Columbia in the last two years it appears most unlikely that that problem will become a serious one.

However, I am informed that in 1953 the value of the capital equipment in primary fishing operations on the West Coast of British Columbia amounted to some forty-five million dollars in ships and boats and seven million dollars in nets and other gear. The fishing fleet on the West Coast was composed of 897 vessels over ten tons and 7,584 smaller vessels.

It is clear from these figures that there is still a great area of service to the fishermen in providing reasonable loans for the purposes of their vessels, repairs, equipment and gear. Possibly with the impetus which will be given by the passage of the Bill much greater demands may be made upon the credit unions for loans of this type. This possibility I have discussed with our Attorney General and our Inspector of Credit Unions before coming to appear before this Committee and I have reasonable assurance from them that in the event that the stable fishing credit unions of the West Coast are recognized as agents for loaning under this legislation, the Provincial Statute of British Columbia would be amended to permit much wider borrowing powers with respect to loans guaranteed under this Act. Hence, in addition to the present assets of the fishermen's credit unions, they will be able to borrow monies from B.C. Central Credit Union to enable them to meet such increased demand. Therefore with respect I suggest that this Honourable Committee need not be concerned that by inciting the need for this type of loan, fishermen on the West Coast will be deprived of the opportunity of using their credit unions to meet their other financial needs.

There are many credit unions in Canada in provinces which have no direct interest in the fishing industry who may not appreciate the benefit and wisdom of the kind of legislation represented by Bill 452. In the Maritime Provinces of Canada, and I speak particularly for the Province of British Columbia, however, the concern of the Federal Government for the welfare of fishermen and of the fishing industry demonstrated by this legislation is greatly appreciated. At a time when most other industries in Canada were still sharing the post-war prosperity between 1950 and 1952, the fishing industry suffered a tremendous set-back in low prices and the inability to dispose of the canned salmon pack. The returns to fishermen in those years were exceptionally low and have never returned to the previous high level. Accordingly, the making of credit more readily available to fishermen through the guarantee of the Dominion Government will be of great assistance in the Maritime Provinces. The credit unions in those provinces appreciate this situation and are anxious that the fishermen through their credit unions may have the benefit of this legislation.

Some credit unions, particularly those who have no vital interest in the fishing industry, such as we have in British Columbia, and having regard to the statement of the Minister of Fisheries in speaking to the Resolution where he referred to the control which the Federal Government exercises over the banks may have become alarmed that the inclusion of credit unions as a loaning agency under the Act might result in some federal control of credit unions, which they naturally and properly recognize to be matters of provincial jurisdiction. The Credit Union Movement has enjoyed its rapid development under the friendly and encouraging supervision of the Provinces and are jealous to maintain that relationship.

I wish to be quite clear that it is the attitude both of the Provincial Government of the province of British Columbia and of the credit unions that credit unions are properly under the jurisdiction of the Provincial Govern-

ments and neither the Provincial Government or the credit unions are inviting this House or are they desirous of having the Federal Government encroach upon that jurisdiction. The Minister in his speech in the House of Commons indicated that he had no desire to intrude into the Provincial field. It is our submission, however, that, recognizing credit unions as institutions created by Provincial Legislation, the Government of Canada could if it wished to do so, recognize those credit unions operated by the fishermen as agents of the Dominion Government for the purpose of guaranteeing loans made by them in the exercise of their provincial authority without in any way encroaching upon the jurisdiction of the Provincial Governments and the autonomy of the credit unions as Provincial institutions.

I therefore am instructed to suggest to this Committee that there be added to the definition section of the Act the following:

"Lending institution" includes a bank or any other lending institution designated by the Minister

and that the phrase "lending institution" be substituted for the word "bank" throughout the legislation wherever the same is appropriate exclusive of Section 8. If this suggestion were adopted by the Committee it would allay any alarm as to the Federal control of Credit Unions and it would be possible for the Minister to satisfy himself in such manner as he thought proper that any credit union seeking to be designated was a stable organization and that proper safeguards might be provided for the protection of the public funds represented by the guarantee. Further it would eliminate the necessity of this House at this late date in the session trying to work out just what credit unions should be recognized and the safeguards to be applied. We are prepared to rely on the good judgement of the Minister when the facts are before him.

The Act presents another problem, if I interpret it correctly in that a guarantee to a bank is 15% for the first half million dollars and then 10% on additional funds loaned. If, as I take it, this refers to the Bank as an institution incorporated under the Bank Act and not to each branch of the Bank I can readily recognize that it would be unfair that a number of credit unions in the province of British Columbia should have a 15% guarantee on half a million dollars each when the whole of the Royal Bank of Canada, for instance, would have to guarantee 15% on half a million dollars and only 10% on additional amounts. There is no practical way that I see of pooling the loans advanced by credit unions under the Bill and, accordingly, my suggestion would be that in the event of the Minister designating any institution other than a bank as a lending agency under the Act the guarantee would be 10% in all cases irrespective of the aggregate amount of the loans. This could be simply remedied by an appropriate addition to Section 6 of the Bill.

Having regard to the excellent history of the fisherman's credit unions in the province of British Columbia they would not be greatly concerned about the loss of the additional 5% guarantee.

If, notwithstanding the facts which I have presented to this Committee relative to the stability, the loss history and the desire to be of service to the fishermen of the fishermen's credit unions in British Columbia, the Committee consider that it would not be possible for the Minister under the proposals which I have made to reasonably protect the public funds represented by the proposed guarantee, then as an alternative we in British Columbia would propose that some means be devised to make use of the Central credit unions which have registered under the Co-operative Credit Associations Act and have thereby come under the jurisdiction of the Superintendent of Insurance for Canada. These Central organizations are limited both by their consti-

tutions and under the Act to having only corporate members and making loans only to their members. Accordingly, it would not be possible for them to make loans directly to fishermen as is contemplated by the legislation as drawn. It appears to us that it would be feasible for the Federal Government to exercise satisfactory control over loans made through credit unions if the loaning credit unions, in order to benefit by their guarantee were required to re-finance such loans in whole or in part with a Central organization registered under the Co-operative Credit Associations Act. Through its control over the Central Credit Union the Dominion Government could thereby indirectly and within the proper exercise of its constitutional jurisdiction have a reasonable and effective control over the loans granted by the credit unions.

I would like it clearly understood that I put forward this last proposal definitely as an alternative. Although it might appear to be the simpler answer to the question of controlling losses made to Credit Unions if in the Bill the reasons I put it forward as an alternative only are as follows: Firstly the Fishermen's credit unions themselves over a period of fifteen years have shown sufficient stability and efficiency as lending institutions to justify their recognition in their own right under the conditions which I have submitted and, secondly providing for such loans through a Central credit union would add to the overhead expense of providing the service to the fishermen at the low rate of interest of 5%. To that extent credit unions would be at a disadvantage in giving as full service as they ought to be able to give in carrying out the purposes of the Federal Government expresses in the Bill.

I mention the fact that on the long coast line of British Columbia, over which some 12,000 fishermen are scattered there are not handling facilities readily available in many areas. The fishermen in these areas can only receive the benefit of this beneficial legislation if these credit unions are available as lending institutions.

I therefore respectfully urge upon the Committee that with the facts concerning the fishermen's credit unions having now been placed before them they recognize the significant contribution at very low cost which the credit unions have made in meeting the very problem which this Bill is directed to assist, by giving to them an equal opportunity with the banks to continue to serve the fishermen of the Maritime Provinces of Canada with respect to their vessels and gear and to be at all times in as favourable a position as the banks would be under the proposed legislation.

Respectfully submitted by

B.C. Credit Union League

R. J. McMASTER

Its authorized agent in that behalf.

APPENDIX "C"

BRIEF OF

LA FÉDÉRATION DES CAISSES POPULAIRES ACADIENNES

APPENDIX "C"

Presentation made by

LA FÉDÉRATION DES CAISSES POPULAIRES ACADIENNES

New Brunswick

On behalf of *La Fédération des Caisses Populaires Acadiennes* for New Brunswick, I should like to associate myself with the statement given by the Nova Scotia Credit Union League, since the situation in my province is much the same as in Nova Scotia.

However, I might add a few statistics concerning our credit unions in New Brunswick which will be valuable to the committee in considering our request. There are 163 credit unions in the province, with approximately 67,000 members and over \$8,000,000 in savings. Total loans recorded for the 19 year period (1935-1955) is over \$37,000,000.

We have 55 credit unions operating in fishing communities, and as a matter of fact the largest credit union in our federation is in a fishing community—Caraquet. As in Nova Scotia we have insurance coverage on loans and savings, provided by our own insurance company organized through the credit unions. Our record in uncollected or delinquent loans is worth noting: in total loans of \$37,000,000 the amount written off to date is about \$12,000. This is equivalent to a loss of one dollar for every \$2,800 loaned from the beginning.

It might be well to point out that of 118 community credit unions in New Brunswick, 102 are operating in rural communities, whereas only 16 are in towns and villages, the place where we find chartered banks.

The provincial government inspection system is much the same in New Brunswick as in Nova Scotia. We have a Registrar of Credit Unions and two inspectors for the province.

We also feel that if this legislation, Bill 452, is intended as a service to fishermen, it should be provided for the fishermen whether he has his credit established in chartered bank or in a credit union.

We feel that, if the credit unions are excluded from this legislation, it will mean that the fisherman is being penalized for the efforts he has made for the past 17 years in organizing credit unions which have enabled him to build up his own credit facilities. We assume that the Government of Canada would want to give better recognition of the work that credit unions have done in building good Canadian communities.

We wish to assure you that *La Fédération des Caisses Populaires Acadiennes* will co-operate in every possible way to ensure the success of any plan whereby credit unions can avail themselves of government guarantees for loans to fishermen.

Respectfully submitted on behalf of

La Fédération des Caisses Populaires Acadiennes

EUCLIDE M. LÉGER

Director

Ottawa, June 22, 1955

APPENDIX "D"

**BRIEF OF
NATIONAL CO-OPERATIVE FISHERIES ASSOCIATION.**

APPENDIX "D"

BRIEF

presented to

THE BANKING AND COMMERCE COMMITTEE
HOUSE OF COMMONS

on

BILL 452—THE FISHERIES IMPROVEMENT LOANS ACT

by the

NATIONAL CO-OPERATIVE FISHERIES ASSOCIATION

of the

CO-OPERATIVE UNION OF CANADA

WEDNESDAY, JUNE 22, 1955

INTRODUCTION

This brief is presented by the National Co-operative Fisheries Association, a division of the Co-operative Union of Canada which brings together the various co-operative organizations of fishermen in Canada. It includes federations of fishermen in every province except Alberta.

We are particularly interested in the provisions of the Fisheries Improvement Loans Act because it will be used very largely by the fishermen who are represented in the membership of our Association; and rather than burden you with a number of briefs we thought it best to combine our views into one presentation.

1. The Economy of the Fishing Communities

The condition of many fishing communities in days gone by is too well known to be described here. In general the standard of living of fishermen was not as good as that of other occupational groups in Canada. The typical fishing village was often a scene of poverty which bore small relation to the great wealth of the waters along our coast-line. The capital investment of the individual fisherman was low, and as a result the fisheries have not been developed as well as they might have. Briefly it can be said that the fishing industry has been characterized by retarded development and a much lower standard of living than the available resources could have supported.

Of course, from Newfoundland on the east coast to British Columbia on the west there is great variety in the industry, but certain underlying characteristics tend to be the same. For one thing, it has always been more or less of a struggle for fishermen to get independent ownership of boats and equipment. In earlier times boats and gear were frequently owned by companies and, unlike the farmers of this country, fishermen had to gradually work their way out of a sort of feudal economy, in which they were share-croppers of the sea rather than independent operators. Fortunately this condition remains in only a few areas.

Closely associated with the economic condition of fishermen has been the whole question of credit. Until recent times there was no financial institution offering credit to fishermen and they had to rely to a great extent

on the fish buyers or companies which bought their catch. So the emancipation of fishermen is intimately linked with new sources of credit, and for this reason Bill 452 may be regarded as another step towards a better economic system for the fishermen of this country.

2. *Changes in the Fishing Industry*

The fishing industry is undergoing great changes today. The general trend is towards greater mechanization and larger investment. More capital is required now to be a successful and productive fisherman. This change towards larger boats and bigger capital outlay has been greatly speeded up since the end of the war.

As example of this, we may take the construction of a large number of draggers and long-liners in the Maritimes. Since 1945 the number of these larger boats has increased from 18 to 237. In the past ten years, mostly in Nova Scotia, 43 modern long-liners have been put into operation. In contrast with the low capital investment of earlier times, a long-liner costs from \$22,000 to \$28,000; and of course this means that new sources of credit must be found to finance them. In all parts of the Atlantic coast, this trend towards bigger boats and better equipment is evident and reflects the general expansion and improvement of the whole industry in recent years.

It should be our aim, of course, to make sure that, in this change to greater capital investment, the fisherman does not lose ownership of the means of production. The importance of keeping fishermen independent owners and free producers should be obvious to everyone. We want our Canadian fishermen to be like our Canadian farmers, free and independent citizens owning the equipment and gear of their occupation.

Much of the improvement in boats and gear referred to here has been the result of fishermen's loan boards, set up in the Maritimes by the provincial governments to assist fishermen to get equipment of this kind. These boards have filled a great need, providing credit where it was not available before, except through credit unions, as will be explained in the next section. But even with provincial loan boards there still remains a gap to be filled in providing credit to fishermen, and it is to fill this gap that Bill 452 is designed.

3. *Credit Unions in fishing communities*

Credit unions first appeared in fishing communities as "caisses populaires" on the Gaspé Coast, the first one being organized in 1908 in the farming and fishing community of Maria. By 1932 there were fourteen credit unions with over 3,000 members on the Gaspé, and in that year too the first credit union was begun in Nova Scotia.

These credit unions fitted in admirably in the fishing communities, in answer to the problem of credit already described. There were relatively few banks serving fishing communities, for the isolation and economic level of these places made it unprofitable for banks to carry on business there. Moreover, where banks did carry on in the larger fishing places, their business was largely with fish companies, merchants and people in other occupations rather than with fishermen. And so, in response to a great need, the credit unions among fishermen grew and developed. As a result, the credit union movement is today inseparably interwoven into the way of life of tens of thousands of fishermen in Canada.

On the Gaspé Coast there are 37 credit unions, in fact no fishing community without one; similarly in the Magdalens. The story of credit unions in Nova Scotia is covered at this sitting by a brief of the Credit Union League. In New Brunswick there are some fifty credit unions in fishing

communities with savings over \$2,000,000 and these are part of the *Federation des Caisses Populaires Acadiennes*, which also has its own life insurance company for the protection of members. In British Columbia an example is provided by the Prince Rupert Fishermen's Credit Union. Organized in 1939, it has built up savings to over \$2,000,000; and up to 1954 it had made loans to members of over \$9,000,000. The loss in uncollected loans during all these years was about \$7,000, or eight cents in every \$100 loaned. The record of credit unions among the fishermen of Canada is an open story for all to read. It is a thrilling story of which all Canadians should be proud.

4. *Credit Unions in the proposed Act*

Bill 452, "An Act respecting Loans to assist Fishermen engaged in a Primary Fishing Enterprise," makes no mention of credit unions. They are ruled out as lending agencies under the Act, and the privileges and benefits of the new legislation apply only to the chartered banks. We contend that this is unfair. The organization that has stood by the fishermen in good days and bad for many years is disregarded in favor of an institution that failed to provide service in the past. The new Act, in effect, says that all the good work and the admirable record of credit unions are to go unrewarded. We hate to think of it!

In the actual operation of this legislation, assuming for the moment that credit unions are included, we ask you to consider who is better qualified to approve a loan to a fisherman, the credit committee of his credit union, made up of other fishermen who know both him and the industry intimately, or the manager in a bank a hundred miles away who knows little of the fisherman and perhaps less of the fishing industry? We would bet on the credit union committee to make the right decision.

Objections have been raised about the suitability of credit unions for the provisions of Bill 452. We submit that it rests with the officers of Government to find the way in which credit unions can be included in this Act, for the performance of credit unions in the past among fishermen has earned for them first consideration in any benefits that will be provided by this legislation.

Respectfully submitted on behalf of the members of the

National Co-operative Fisheries Association.

LOUIS BERUBE

ALEXANDER LAIDLAW

Ottawa, June 22, 1955.

APPENDIX “E”

BRIEF OF
NOVA SCOTIA CREDIT UNION LEAGUE.

APPENDIX "E"

INCLUSION OF CREDIT UNIONS IN BILL 452—
"FISHERIES IMPROVEMENT LOANS ACT"

Presented to

COMMITTEE ON BANKING AND COMMERCE
HOUSE OF COMMONS

On behalf of

NOVA SCOTIA CREDIT UNION LEAGUE

Antigonish, N.B.

WEDNESDAY, JUNE 22, 1955

INCLUSION OF CREDIT UNIONS IN BILL 452—
"Fisheries Improvement Loans Act"

The Nova Scotia Credit Union League is a Federation of the credit unions of Nova Scotia. It is on behalf of these credit unions, and especially those located in our fishing communities, that we present these comments. We hope that our presentation will help you decide to include credit unions in Bill 452—The "Fisheries Improvement Loans Act".

The first credit unions were organized in Nova Scotia in late 1932 and early 1933. Canada in those years was in the depths of the great economic depression. Probably no group suffered so much from that depression as Maritime fishermen. To help solve the problems of all groups the Extension Department of St. Francis Xavier University promoted a program of study and group action. Very early after the launching of this program, the need for credit facilities became evident. Thus the organization of credit unions was fostered.

We think it is safe to state that the need for credit facilities was as great among our Maritime fishermen as in any other occupational group. Not only were prices extremely low, but the fishermen had to avail themselves of the only source of credit, namely the local fish buyer. Banks were not interested in providing this much-needed credit. There were no finance companies as we know them today. The result was that the fisherman lost control over his catch and the freedom to market it as he wished, because economic circumstances forced him to sell to the party that supplied him with credit. By the organization of his own credit union, he created for himself and his fellow fishermen a source of credit that was friendly and inexpensive. He was thus able to pay cash for his supplies and, more important, he could participate in the organization of his own marketing facilities through which he would obtain the best prices possible for his catch.

Starting as they did in the depression years, credit unions in Nova Scotia have shown steady and sound progress. There are now 222 credit unions in the province, with approximately 52,000 members and almost \$8 millions in savings. They have loaned to themselves about \$40 million and they have a loss experience that would be envied by many finance companies operating with more facilities and more highly trained personnel.

It is significant to note that one of the first credit unions in Nova Scotia was organized in the fishing village of Canso. It is still operating and doing a good job. We have about 60 credit unions that are operating at present in

similar communities. More than half of these can be classified as fishermen's credit unions, where the only industry is fishing. There is also a number where other occupational groups are involved but where fishing is still an important factor in the economy of the community.

Some of our larger credit unions are located in typical fishing communities such as Cheticamp, Grand Etang and West Pubnico. In these communities the credit union is a full-time operation providing the members with complete credit facilities. In other communities, credit unions are reaching the stage where the demands for service are increasing to the point where it will be necessary for them to open on a full-time basis.

It is important to point out, too, that in all these credit unions the officers are serving without remuneration. In the larger credit unions the Treasurer is paid a salary within the means of the credit union. It is not uncommon to find individuals who have served faithfully as officers of the credit union for fifteen years or more without more than a "thank you" at the annual membership meeting. Their service is a dedicated one.

At this session of the Parliament of Canada, you are to consider legislation designed to help the fishermen obtain credit facilities comparable to what is now provided for the farmers. The Government is to be commended for this move, which, we are sure, will meet with popular approval. However, we are concerned inasmuch as the proposed legislation intends to provide government guarantees only to the chartered banks for loans made to fishermen under the Act. We do believe that consideration should be given to the inclusion of credit unions under the provisions of the Act. We say this not because of any selfish interest, but rather because we feel that the credit unions movement has earned for itself by its past record a consideration equal to any other financial institution in the field of credit for fishermen.

For many years the fishermen of the Maritimes have been in need of credit. As pointed out by several Honourable members of Government, the only source of credit in many fishing communities has been the local fish merchant or supply company and the credit unions. Banks have been reluctant to provide the necessary credit because of the risk involved. In view of the fact that these credit unions have been willing to take the risk and provide credit according to their ability, we feel that it would not be fair for the government now to ignore them and ask the banks to provide this much-needed credit with government guarantees to offset the risk involved. Credit unions, for twenty years, have made loans with little more than the character of the borrower as security, and the experience has been good. Our credit unions will continue to make such loans whether the proposed legislation applies or not to credit unions.

There are other things that these credit unions have accomplished. Fishermen who never before in their lives accumulated any savings, today have some savings. They have developed the habit of thrift; they have learned through their credit unions how to borrow wisely; by their co-operative efforts they have taken a vital interest in the welfare of their fellow man. The result of all this, in conjunction with other ventures, often sparked by the credit union, has given fishermen something they would not have otherwise. They have a much better standard of living; they are more interested in preserving the fisheries as a national resource; and above all they have become better citizens, free from the slavery of the thirties.

Credit union members in Nova Scotia in affiliation with members in other Canadian Provinces and the States of the United States have set up their own insurance company. Through this organization, all their loans are insured against death or disability and their life savings are complemented by insurance

on their savings. As a result of this, fishermen's families have been protected and their estates increased. We feel this to be important inasmuch as it protects the credit union as a lender and would protect the government as a guarantor where it might be liable for a possible loss due to death or total and permanent disability.

Along with our credit unions we also have the Nova Scotia Credit Union League, which is a federation of all the credit unions in the province. This organization does the educational and promotional work in connection with credit unions. It also provides a field service to advise credit unions in matters of policy and operating procedures, as well as to act as a supervisor, although without any particular legal authority. A department of the League acts as a credit union for credit unions. Through this department loans are made available to credit unions to meet the seasonal and other demands for loans from the members that the credit union cannot handle by itself. In other words, it is an additional source of funds for credit unions in the peak of their borrowing periods. As a rule, the League does not make loans to individual members except by way of first mortgage. However, we do make these in fairly large sums. Just a few days ago we made such a loan to a fisherman to help him procure a new boat. To secure the loan it was necessary for us to take a first mortgage on his home. We point this out as one of many cases that come to us. The fisherman came to us because the amount he wanted was larger than his local credit union could handle.

We are aware that there are some problems in granting our request for the inclusion of credit unions under the proposed Fisheries Loans Act. Some, no doubt, are afraid that credit unions are not as safe as they would like them to be. Others feel that, since credit unions are provincially incorporated, the Federal government would be at a disadvantage in supervising loans that come under this Act. Others probably feel that credit unions do not have facilities to provide the necessary services under the Act.

As for the safeness of credit unions, we feel that the record speaks for itself. In twenty years of operation we do not know of a credit union going in bankruptcy or closing out that did not pay back to its depositors a dollar for every dollar deposited. Actually no credit union in Nova Scotia has gone into bankruptcy. Some have been closed out and no doubt that will continue as long as the present trend continues whereby our farming and fishing villages are repleted of population by those seeking better living standards in the towns and cities. That has been the major reason for the closing of any of our credit unions. True, too, there have been losses in credit unions because of the failure of borrowers to repay their loans. But these are anticipated in any business and the necessary reserves are set aside. Only about \$37,000 has been charged to reserves in Nova Scotia during the past twenty two years of credit union operations where a loan business of \$40 millions has been done. All of this \$37,000 cannot be charged to dishonesty or neglect on the part of officers. A considerable sum of it was written off during the war years. Many young men with unpaid loans went into the services and many did not return. Rather than collect from the widow or mother, the credit union charged the unpaid loan to its reserves.

To add to the soundness of credit unions, our Provincial Government has a Registrar of Credit Unions and two inspectors. Every credit union is inspected annually and sometimes more often and reports of these inspections are filed with the Registrar and the League. Irregularities and bad practices are noted and the necessary corrective action is taken. Bonding for the faithful performance of duties is a requirement of the Credit Union Act to guard against defalcations and losses because of neglect.

The League, likewise, is in continuous contact with the credit unions and every effort is made to see to it that each credit union is operating according to the spirit and the letter of the Credit Union Act. Therefore, we feel that our credit unions are safe and our experience would substantiate that statement.

The fact that credit unions are provincially incorporated should not cause any anxiety. While the federal government does not have any direct supervision over credit unions, nevertheless we do feel that there is sufficient liaison between the federal government and the provinces to make the necessary arrangements to offset the lack of direct federal supervision. We do not expect the government to take any unnecessary risks. We do not want to see credit unions receive a privilege under the Act that they are not worthy to receive. The Nova Scotia Credit Union League would co-operate in any possible way to insure the success of any plan whereby credit unions could avail themselves of government guarantees.

While many of our small credit unions may not be noted for elaborate facilities for the carrying on of business, we would not want you to be deceived into thinking that they do not have adequate facilities for the proper handling of their business. Certain standard requirements must be met in all our credit unions, such as a standard bookkeeping system with approved forms and a standard procedure to be followed in the conduct of its business. As credit unions grow in size, added facilities are acquired. In our larger credit unions you will find modern equipment such as bookkeeping machines, walk-in vaults, safety deposit boxes and the other demands of modern business. We assure you that not only do our credit unions have the necessary facilities, but they are located along our coast line in small communities where the chartered banks find it uneconomical to operate. This is an important consideration in any plan of financial assistance to fishermen. In our credit unions, service is available right in the community where the fishermen live.

We hope that these comments have contributed something for your consideration. We know that you are interested in our request and we feel confident that you will find solutions to the problems facing you so that credit unions can be included. We hope too that you will give consideration to those Leagues of Credit Unions similar to what we have in Nova Scotia. We want to continue doing a job for our fishermen in the financial field. With your favorable consideration to our request we feel confident that we can do a much better job than we have done in the past. Our contribution, along with that of the banks, should go a long way to rehabilitating the fishing industry, especially in Nova Scotia.

Respectfully submitted on behalf
of the Nova Scotia Credit Union
League.

R. MacMullin
Managing Director.

Dec
Canada : Banking and Commerce
Standing Cttee on 1956

HOUSE OF COMMONS

Third Session—Twenty-second Parliament
1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

Bill 84

An Act to amend the Canadian Farm Loan Act

TUESDAY, MARCH 6, 1956

TUESDAY, MARCH 27, 1956

WITNESS:

Mr. F. L. Chester, Commissioner, Canadian Farm Loan Board

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

Chairman: John W. G. Hunter, Esq.,
and Messrs.

| | | |
|-----------------------------------|-------------------------------|-------------------------------|
| Argue | Gour (<i>Russell</i>) | Philpott |
| Ashbourne | Hanna | Power (<i>Quebec South</i>) |
| Balcom | Hellyer | Quelch |
| Benidickson | Henderson | Richardson |
| Bennett (<i>Grey North</i>) | Hollingworth | Robichaud |
| Blackmore | Huffman | Rouleau |
| Cameron (<i>Nanaimo</i>) | Johnson (<i>Kindersley</i>) | St. Laurent (<i>Temis-</i> |
| Cannon | Johnston (<i>Bow River</i>) | <i>couata</i>) |
| Carrick | Macdonnell (<i>Green-</i> | Stewart (<i>Winnipeg</i> |
| Crestohl | <i>wood</i>) | <i>North</i>) |
| Dufresne | MacEachen | Thatcher |
| Eudes | Macnaughton | Tucker |
| Fairey | Matheson | Valois |
| Fleming | Michener | Viau |
| Follwell | Mitchell (<i>London</i>) | Vincent |
| Fraser (<i>Peterborough</i>) | Monteith | Weaver |
| Fraser (<i>St. John's East</i>) | Nickle | |
| Fulton | Pallett | |

Eric H. Jones,
Clerk of the Committee.

Note: The name of Mr. Charlton was substituted for that of Mr. Dufresne after the morning sitting on Tuesday, March 27, 1956.

ORDERS OF REFERENCE
HOUSE OF COMMONS

THURSDAY, January 26, 1956.

Resolved,—That the following Members do compose the Standing Committee on Banking and Commerce:

Messrs.

| | | |
|--------------------------------|------------------------------------|--------------------------------|
| Anderson | Fraser (<i>St. John's East</i>), | Noseworthy |
| Ashbourne | Fulton | Pallett |
| Balcom | Hanna | Philpott |
| Benidickson | Hellyer | Power (<i>Quebec South</i>), |
| Bennett (<i>Grey North</i>), | Henderson | Quelch |
| Blackmore | Hollingworth | Richardson |
| Cameron (<i>Nanaimo</i>), | Huffman | Robichaud |
| Cannon | Hunter | Rouleau |
| Cardin | Johnson (<i>Kindersley</i>), | St. Laurent |
| Carrick | Johnston (<i>Bow River</i>), | (<i>Temiscouata</i>) |
| Crestohl | Macdonnell | Stewart (<i>Winnipeg</i> |
| Dufresne | MacEachen | <i>North</i>) |
| Dumas | Macnaughton | Thatcher |
| Eudes | Matheson | Tucker |
| Fairey | Michener | Viau |
| Fleming | Mitchell (<i>London</i>), | Weaver—50. |
| Follwell | Monteith | |
| Fraser (<i>Peterborough</i>) | Nickle | |

(Quorum 15)

Ordered,—That the Standing Committee on Banking and Commerce be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

FRIDAY, March 2, 1956.

Ordered,—That the name of Mr. Vincent be substituted for that of Mr. Cardin; and

That the name of Mr. Gour (*Russell*) be substituted for that of Mr. Anderson on the said Committee.

TUESDAY, March 6, 1956.

Ordered,—That the quorum of the said Committee be reduced from 15 to 10 members.

Ordered,—That the said Committee be granted permission to sit while the House is sitting.

Ordered,—That the said Committee be empowered to print such papers and evidence as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto.

STANDING COMMITTEE

THURSDAY, March 8, 1956.

Ordered,—That the following Bill be referred to the said Committee:
Bill No. 51, An Act to amend the Small Loans Act.

MONDAY, March 12, 1956.

Ordered,—That the name of Mr. Valois be substituted for that of Mr. Dumas; and

That the name of Mr. Argue be substituted for that of Mr. Noseworthy, on the said Committee.

THURSDAY, March 22, 1956.

Ordered,—That the following Bills be referred to the said Committee:
Bill No. 84, An Act to amend the Canadian Farm Loan Act.
Bill No. 165, An Act to amend the Industrial Development Bank Act.

TUESDAY, March 27, 1956.

Ordered,—That the name of Mr. Charlton be substituted for that of Mr. Dufresne on the said Committee:

Attest

LEON J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

TUESDAY, March 6, 1956

The Standing Committee on Banking and Commerce begs leave to present the following as its

FIRST REPORT

Your Committee recommends:

1. That the quorum be reduced from 15 to 10 Members and that Standing Order 65(1)(d) be suspended in relation thereto.
2. That permission be granted to sit while the House is sitting.
3. That it be empowered to print such papers and evidence as may be ordered by the Committee, and that Standing Order 66 be suspended in relation thereto.

Respectfully submitted.

JOHN W. G. HUNTER,
Chairman.

(Note: The Second Report of the Committee dealt with two Private Bills in respect of which verbatim evidence was not recorded.)

MINUTES OF PROCEEDINGS

TUESDAY, March 6, 1956

The Standing Committee on Banking and Commerce met at 11.00 a.m. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Balcom, Benidickson, Bennett (*Grey North*), Blackmore, Cameron (*Nanaimo*), Cannon, Carrick, Crestohl, Dumas, Fairey, Fleming, Fraser (*Peterborough*), Fraser (*St. John's East*), Gour (*Russell*), Hanna, Huffman, Hunter, Macdonnell (*Greenwood*), Michener, Mitchell (*London*), Monteith, Noseworthy, Philpott, Power (*Quebec South*), Quelch, Richardson, Robichaud, Tucker and Weaver.

In attendance: Mr. K. R. MacGregor, Superintendent of Insurance; Mr. H. R. Douglas, Parliamentary Agent, and Mr. C. W. Gale, appearing on behalf of The Canadian Equity Insurance Company, Mr. F. A. M. Huycke and Mr. M. B. Dix, appearing on behalf of The Interprovincial Trust Company.

Mr. Hunter thanked the Committee for electing him Chairman.

Before proceeding with the Orders of the Day, the Chairman suggested that certain resolutions pertaining to future conduct of the Committee be considered.

On motion of Mr. Richardson,

Resolved:—That the Committee recommend to the House that it be empowered to print such papers and evidence as may be ordered by the Committee, and the Standing Order 66 be suspended in relation thereto.

On motion of Mr. Fairey,

Resolved:—That the Committee recommend to the House that its quorum be reduced from 15 to 10 members, and that Standing Order 65(1)(d) be suspended in relation thereto.

On motion of Mr. Cannon,

Resolved:—That the Committee recommend to the House that it be authorized to sit while the House is sitting.

It was ordered that the Chairman make a report to the House embodying the preceding resolutions.

(Note: The Committee then considered two Private Bills in respect of which verbatim evidence was not recorded.)

At 12.00 o'clock noon the Committee adjourned to the call of the Chair.

ANTOINE CHASSÉ,
Acting Clerk of the Committee.

TUESDAY, March 27, 1956

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Argue, Ashbourne, Balcom, Bennett (*Grey North*), Blackmore, Cameron (*Nanaimo*), Carrick, Fairey, Fleming, Fraser (*Peterborough*), Gour (*Russell*), Hanna, Henderson, Hollingworth, Huffman, Hunter, Johnson (*Kindersley*), Johnston (*Bow River*), MacEachen, Michener, Pallett, Philpott, Power (*Quebec South*), Quelch and Richardson.

In attendance: Messrs. F. L. Chester, Commissioner; E. O. Bertrand, Member; W. A. Reeve, Secretary; and R. McIntosh, Chief Accountant; all of the Canadian Farm Loan Board.

On motion of Mr. Bennett (*Grey North*),

Resolved,—That Mr. Valois be Vice-chairman of the Committee.

On motion of Mr. Carrick,

Resolved,—That a Sub-committee on Agenda and Procedure be appointed, to be comprised of the Chairman and Messrs. Benidickson, Fleming, Fraser (*St. John's East*), Huffman, Macdonnell (*Greenwood*), Quelch, Stewart (*Winnipeg North*) and Valois.

The Committee proceeded to consider Bill 84, An Act to amend the Canadian Farm Loan Act.

On motion of Mr. Richardson,

Resolved,—That the Committee print 750 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence in respect of Bill 84.

Mr. Chester was called; he read a prepared statement of the operations of the Board under the Canadian Farm Loan Act.

There was debate as to whether farm organizations should be invited to attend and make representations to the Committee, or, alternatively, whether the Sub-committee should consider this question and make a recommendation to the Committee.

It was agreed that the Sub-committee on Agenda and Procedure meet following the adjournment of the Committee at 5.00 p.m. this day to consider and recommend in this matter; and that, for the purpose of that meeting the following substitutions be made, viz., Mr. Hollingworth for Mr. Benidickson, Mr. Charlton for Mr. Macdonnell (*Greenwood*) and Mr. Johnston (*Kindersley*) for Mr. Stewart (*Winnipeg North*).

Mr. Chester was questioned on the operations of the Canadian Farm Loan Board.

At 1.00 o'clock p.m., the Committee adjourned until 3.30 o'clock p.m. this day.

AFTERNOON SITTING

At 3.30 o'clock p.m., the Committee resumed its consideration of Bill 84, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Bennett (*Grey North*), Blackmore, Cameron (*Nanaimo*), Carrick, Charlton, Eudes, Fairey, Fraser (*Peterborough*), Fraser (*St. John's East*), Gour (*Russell*), Hanna, Hellyer, Henderson, Hollingworth, Huffman, Hunter, Johnson (*Kindersley*), Johnston (*Bow River*), MacEachen, Macnaughton, Michener, Pallett, Philpott, Power (*Quebec South*), Quelch, Richardson, Tucker and Valois.

In attendance: The same as at the morning sitting.

Mr. Chester was further questioned on the operations of the Canadian Farm Loan Board.

At 4.52 o'clock p.m., the Chairman withdrew to attend the House and the Vice-chairman took the chair.

At 5.00 o'clock p.m., the Committee adjourned to the call of the Chair.

Eric H. JONES,
Clerk of the Committee.

EVIDENCE

TUESDAY, March 27, 1956
11 a.m.

The CHAIRMAN: Gentlemen, we have a quorum now and I suggest that we proceed. Some others may appear later on. There is a motion to be moved by Mr. Bennett.

Mr. BENNETT: (*Grey North*): Mr. Chairman, I move that Mr. Valois be Vice-chairman of the committee.

The CHAIRMAN: All those in favour? Contrary, if any? I declare Mr. Valois to be Vice-chairman. Now, Mr. Carrick?

Mr. CARRICK: Mr. Chairman, I move that a Sub-committee on Agenda and Procedure be appointed, to be comprised of the Chairman and Messrs. Benidickson, Fleming, Fraser (*St. John's East*), Huffman, Macdonnell (*Greenwood*), Quelch, Stewart (*Winnipeg North*), and Valois.

The CHAIRMAN: You have heard the motion, all those in favour? Contrary, if any? I declare the motion carried.

As you know, we are here to deal with Bill 84, An Act to amend the Canadian Farm Loan Act, which was referred to the committee on March 22. In that connection I think it is in order that we have a motion regarding printing.

Mr. RICHARDSON: Mr. Chairman, I move that the committee print 750 copies in English and 200 copies in French of its minutes of proceedings and evidence in respect of Bill 84.

The CHAIRMAN: All those in favour of the motion? Contrary, if any? I declare the motion carried.

In connection with this bill, I think you all have a statement, or has it been distributed yet? Could we have the statement distributed?

I suggest that Mr. Chester read his statement to the committee and then if the committee have any questions, they may put them to Mr. Chester at the end of his statement and he will try to answer them, after which we shall proceed with the actual consideration of the clauses of the bill.

Mr. Chester, would you kindly come up here and read your statement. Mr. Chester is Chairman of the Canadian Farm Loan Board.

Mr. F. L. Chester, Chairman, Canadian Farm Loan Board, called:

The WITNESS: Mr. Chairman and Members of the Parliamentary Committee:

The Canadian Farm Loan Board came into existence in 1929 as a result of the demand for: lower interest rates, longer repayment terms, and a dependable source of funds for farm mortgage lending in Canada. The original Act provided for a co-operative scheme between the Federal Government, Participating Provinces, and the Borrower each contributing to the extent of 5% of the amount loaned to the capital of the Board and the lending funds of the Board were provided by the Federal Government. All Provinces in Canada, excepting Ontario, Saskatchewan and Prince Edward Island, participated from the outset. In 1934, the Canadian Farm Loan Act was amended and the Federal Government became the sole owner, having repaid the capital provided by the Provinces and the Borrowers. Lending was then extended to

all Provinces in Canada and has since been continued uninterrupted. The Canadian Farm Loan Board maintains a Branch Office responsible for the processing of all loans in each Province excepting Newfoundland.

The original and main purposes for which the Canadian Farm Loan Board was set up were:

- (a) To reduce farm mortgage interest rates of between 7 and 12 per cent then being charged in Canada;
- (b) To provide a dependable source of funds for farm mortgage lending across Canada under varying economic conditions;
- (c) To provide mortgage loans for a long period of years (twenty-five), that is the present number of years;
- (d) To provide for the orderly repayment of farm mortgage loans with maximum ease by amortizing the loan through equal annual or semi-annual instalments of principal and interest.

To provide moderate and stable mortgage interest rates for farmers across Canada by this Board has always been predicated upon a competitive and self-sustaining operation without the benefit of Government subsidies, so that the mortgage interest rates charged to farmers by all mortgagees could properly and fairly be influenced by that charged by this Board.

The Canadian Farm Loan Board makes loans to farmers across Canada without restrictions as to age, residence, sex or nationality. Since commencing loaning operations in 1929, this Board has made mortgage loans of over \$100,000,000 to more than 43,000 farmers across Canada. At the present time, there are more than 20,000 borrowers on its books owing over \$44,000,000. The collection experience of the Board has varied with prevailing economic conditions but, generally speaking, it has been considered good with only \$173,381 of interest arrears representing .439% of outstanding principal as at March 31, 1955. The low point was in 1949 with \$60,837 interest arrears or .196% of outstanding principal. The high point was in 1935 with \$511,446 interest arrears or 8.02% of outstanding principal. Foreclosures of loans have always been kept to the lowest minimum consistent with safety of investment and have been resorted to when the borrower's position was, apparently, hopeless. The Board's record of real estate acquired shows 684 securities from 1929 to 1949 and 17 securities from 1949 to 1955, a total of 701.

Actual losses sustained by the Board since its inception total \$716,917. These losses have been taken care of by the reserve for losses built up through the years and which now totals \$2,349,258.

The amount of loaning by the Board has gone up and down according to the requirements of its borrowers, the largest year being 1935 when \$9,269,188 was disbursed on first mortgage, the lowest year being 1944 when \$1,251,949 was disbursed on first mortgage. In 1954-55, the second largest amount \$8,207,002 was disbursed and the combined totals of 1954 and 1955 will exceed any other two-year period in the Board's history. The present investment of the Board is at its greatest amount since inception—\$40,277,496. (March 31, 1955)

The Board in 1955 required 123 employees to place 2,137 new loans totalling \$8,207,002 while administering an investment of \$40,000,000. This compares with 178 employees in 1940 to place 2,380 new loans totalling \$4,149,000 while administering an investment of \$37,000,000. Experience and improved methods of operations have, in the main, accounted for the decrease in personnel. It cost this Board 1.39% of investment in 1955 to administer 20,982 loans. The average cost over 25 years has been 1.28% of investment and since 1946 has not been below 1.29%, the highest point being 1.505% in 1951. Salaries and wages account for more than 75% of all administrative expenses. It is worthy of note that of the 123 employees on the payroll as

of March 31st, 1955, 12·8% had over 20 years of service with the Board, 26·4% had between 15 and 20 years and 10·4% between 10 and 15 years, or practically 50% of the staff had over 10 years of service.

A history of the Board's maximum loan limits on first mortgage is as follows:—

| | | |
|---------------------------|--|----------|
| 1929 to July 2, 1934 | 50% of appraised value of land and 20% of permanent insured improvements thereon not to exceed | \$10,000 |
| July 3/34 to April 16/35 | 50% of appraised value of land and 20% of permanent insured improvements thereon not to exceed | \$ 7,500 |
| April 17/35 to June 17/52 | 50% of appraised value of land and buildings not to exceed | \$ 5,000 |
| | (These are on first mortgage). | |
| June 18/52 to present | 60% of appraised value of land and buildings not to exceed | \$10,000 |
| Proposed amendments | 65% of appraised value of land and buildings not to exceed | \$15,000 |

A history of interest rates charged by the Board on first mortgage is as follows:—

| | Interest Rate Charged | Cost of funds to Board |
|---------------------------|--------------------------|------------------------|
| 1929 to Oct. 12/34 | 6½% | 5% |
| Oct. 13/34 to May 22/35 | 5½% | 4% |
| May 23/35 to April 1/45 | 5% | 3½% |
| April 2/45 to March 31/52 | 4½% | 3% |
| April 1/52 to present | 5% | 3¾%—3⅛% |
| | | present cost 3¼% |

Repayment periods:

| | |
|------------------------|---|
| 1929 to April 16/35 | Interest plus 1 or 2% of Principal at option of borrower. Equivalent to amortization on a 23 or 32-year plan. |
| April 17/35 to present | Repayment on amortized plan not in excess of 25 years. |

My associates and I, Mr. Chairman, will endeavour to answer questions and supply information regarding the administration of the Canadian Farm Loan Board which you and the committee members may require. I can assure you that we will welcome criticism and suggestions which might result in increased service to the farmers of Canada through this Board.

The CHAIRMAN: There will be some questions, I have no doubt.

Mr. QUELCH: Mr. Chairman, before we start with the questions, is it the intention to call representative farm organizations to submit briefs on this bill?

The CHAIRMAN: It has not been decided to do so. We have received no requests by them to do so.

Mr. QUELCH: There is quite a lot of interest among the farm organizations regarding the policies of the Canadian Farm Loan Board.

The CHAIRMAN: They will by now surely know that the act is up for amendment, and there has not been the slightest indication by them to ask for permission to make representations.

Mr. QUELCH: Is it not customary to send out letters to notify them to attend?

The CHAIRMAN: I think it is when putting in some new act. I have never heard that it was the custom with amendments, but I may be wrong.

Mr. ARGUE: Speaking from my knowledge of some of the farm organizations and of the people in them, I think that if they were made aware that this committee was sitting, and that the committee would be quite prepared for them to appear, I am sure they would be only too pleased to do so.

The CHAIRMAN: I do not think that any of those farm organizations that I have ever run up against are ignorant of parliamentary procedure. They seem to be very knowledgeable groups, and they know that this act has been up for amendment, and that it has had second reading and has been referred to this committee.

Mr. JOHNSON (*Kindersley*): If any farm organization had the desire to appear before us, they would not have had time to hold their meetings and make the necessary request.

Mr. ARGUE: Surely this committee could hold some of its sittings after the Easter recess, in which case the farm organizations would have plenty of time to learn about the procedure that is being followed, and could decide on that basis whether they wished to send representatives. As far as the farmers' unions are concerned, particularly the Saskatchewan farmers' union, I would be surprised personally if they would not be more than pleased and anxious to appear before us.

Mr. BENNETT (*Grey North*): This bill was mentioned in the speech from the throne. The resolution was in the house a month ago. The head office of the Canadian Federation of Agriculture is right here in Ottawa, and I think that if they wanted to make representations they would have said so before now.

The CHAIRMAN: I am confident that they are fully aware of the bill and of its contents. These farm organizations have never been noted for being asleep.

Mr. ARGUE: If within the next few days the Chairman should receive a request from any of these organizations asking for the privilege of having witnesses appear before us, would he have any objection?

The CHAIRMAN: The Chairman does not control the Committee. A steering committee has been appointed, but it in turn does not control the committee. The steering committee simply makes recommendations to the committee and it is up to the committee then to decide. We have received no representations and we are anticipating something which may never happen. I have received no requests.

Mr. JOHNSTON (*Bow River*): It does seem to me that if there are farm organizations which desire—and I too am one of those who think that the farm organizations would desire to come before this committee—if they knew they were going to be permitted to do so.

The CHAIRMAN: You know perfectly well that any farm organization that has ever asked to come before a committee—when they were a legitimate farm organization—has never been refused.

Mr. ARGUE: That is not true!

The CHAIRMAN: That is your opinion.

Mr. JOHNSTON (*Bow River*): If that is your opinion, all right; but it is almost Easter now, and it is not the practice of this committee to sit right up to the day before we adjourn before Easter, or any other committee. It

seems to me that we are putting this bill in a position to close it off before Easter, that is, we are endeavouring to finish it up before Easter. I do not think we should do that. We should allow it to stand over the Easter recess on the understanding, and I say this advisedly, that the farm organizations will be permitted to come down if they so wish.

If you, as Chairman of the committee, desire not to publicize it wholesale, that the farmers are being asked to come down, that is your privilege, but I think it should be made known to the farm organizations that if they desire to come down after Easter, they would be given plenty of time when we have meetings, and to submit proof that they could do so, and that they would be welcome to do so if they so desired. That seems to me to be the proper way to solve this thing when it is so close to the Easter recess.

Mr. JOHNSON (*Kindersley*): I do not think that the initiative should be left to them. We have had a lot of farm organizations appear before this committee and I think we should extend an invitation to all bona fide farm organizations to submit briefs before this committee.

Mr. QUELCH: While some organizations may write in and ask to appear, nevertheless in the past it has been the practice for the agenda committee, from the very start of the sittings, to discuss what organizations should be invited, whereupon invitations have been sent out. And if we should receive additional requests from other organizations, it may be that we might consider whether or not they should be included. That has always been the practice, to send invitations out to the organizations which we think have a special interest in the legislation before the committee.

Mr. HUFFMAN: If we delay this unduly, the advantage that would be gained from extending the ceiling from \$10,000 to \$15,000 would be lost.

Mr. QUELCH: Such a disadvantage might be offset by the advantages gained by bringing in some worth while amendments to the present bill.

Mr. ARGUE: Surely no farmer will be denied a loan under this legislation if we hold it up until after Easter. The government has been sitting around for twenty years waiting to make this particular amendment, and after they have made it, it is not a matter of hours and minutes in getting it passed. We should have a thorough discussion of this whole issue, and I do not think there is any aspect of government policy as it affects agriculture that has received more universal criticism than the operation of the Canadian Farm Loan Board and the operations of this act. I say that after having given some thought to it, that the farm organizations have expressed criticism with respect to members of parliament in every political party, including the government, and that they have expressed what I consider to be very severe criticism of the administration of this act. I submit that we would only be doing our duty if we asked the farm organizations to appear before us, and I think that if we asked them they would be only too happy to respond.

Mr. FRASER (*Peterborough*): It would only mean a matter of a week or so after Easter when this bill would go through, and I understand that the Farm Loan Board will not pass on a farm when there is snow on the ground; the ground has to be clear of snow before they process a loan. I think, however, that the snow will be gone after Easter and then everybody would be satisfied.

The CHAIRMAN: I would hesitate to be as optimistic as you are, that everybody would be satisfied.

Mr. ARGUE: In that case, they really should be called in.

The CHAIRMAN: I am not sure we could ever satisfy you, Mr. Argue.

Mr. ARGUE: I do not expect that you ever will! Having made the plea as well as I know how, that the farm organizations may appear, we should remember that the Canadian Federation of Agriculture—some of them—are only two blocks away.

The CHAIRMAN: Yes, and they know what is going on!

Mr. ARGUE: You could have the Farmers' Union people here, and they could get here in 48 hours; and I am sure that they could give this committee some very valuable information, and make some very valuable recommendations. I would go so far as to say that if such witnesses did appear, the result of their representations would no doubt have to do with the administration of it.

Mr. BENNETT (*Grey North*): I think we should get on with the bill, Mr. Chairman, and get these amendments passed as law, so that they will work for the benefit of the farmers; and as far as the snow being off the ground, Mr. Fraser may come from a snow belt, but in my riding the snow is already pretty well off the ground, and there inspections could be made at any time. So I suggest that if we could pass this bill before Easter, the farmers would have the benefit of these important amendments earlier.

Mr. QUELCH: There is bound to be criticism if we go ahead with the bill without calling the farm organizations. We have heard it said in the House of Commons time and again concerning certain legislation being brought down without farm organizations being consulted, and I think it is only an act of common courtesy to do so.

Mr. JOHNSON (*Kindersley*): Anyone who represents a farming constituency would want to have the thinking of the farmers before this committee, and I think we would be far better advised to follow the suggestion initially made, and to suggest that we have no objection to farm committees appearing before us, and to follow that important suggestion with invitations to be sent out to them.

There are other bills which will be referred to this committee, such as the small loans legislation, and at that time they will have representatives appearing before us. I am confident that the time-table of the sittings of this committee might be arranged to suit their pleasure, and I think the same principle should apply to the farm organizations.

Mr. FLEMING: I am late in arriving, Mr. Chairman, because I had to attend a meeting of the estimates committee which is continuing, but I would like to say that I think this matter should have been carefully considered by the steering committee before this point, and that the farm organizations might yet be called before the committee to make representations or be given an opportunity to do so.

With respect to the sittings of the committee, in view of our discussion at the outset, a couple of weeks ago, about the matter of afternoon sittings while the house is sitting, I thought that all this was to be cleared through the steering committee before any afternoon meeting was called, particularly during the budget debate, and more particularly in this short week.

I support the proposals made to give an opportunity to interested organizations to appear here, in keeping with the practice of the committee. I do not suggest that we throw it open to all and sundry such as purely local bodies, but only to bodies which have a recognized status to speak for large groups, and that they should be given an opportunity to make representations if they desire to come here.

Now the period of the Easter recess will give an opportunity for such organizations to make their wishes known in that respect, and I would urge that that be done.

This bill is not a lengthy one. Nevertheless there has not been a review of the act by a parliamentary committee for some time and judging by the tone and the extent of the discussion in the house, it is a matter of very great interest to a number of members. I think that is a reflection of the fact that it is of interest to a great many people who might hope to obtain benefit from this act. Therefore I urge that as a committee, it is our duty to offer them an opportunity to come here, and that we should take the bill up directly after the Easter recess.

The CHAIRMAN: No one is trying to deny to any interested group the right to come here. These amendments have received a lot of publicity. They have all known that the amendments are there. From my short experience with committees—which is not as long as that of many others—I have always found that when there is something of interest to a profession, a business, or a group, that is coming up before parliament, if they are vitally interested, then their representations start coming in long before the legislation has even reached first reading.

If these people have been fully aware of this, they have not even had the curiosity or interest to write in and to ask. Surely that would indicate that they have not had any great or vital interest in it. We are not trying to thwart anybody. The government is anxious to get this into operation and they asked that the meetings of the committee be held to consider the amendments. Therefore I think that the committee should consider those amendments.

Mr. BENNETT (*Grey North*): Just to show how right you are, Mr. Chairman, during the last ten days I have received five or six letters from farmers in my constituency about the amendments, and there has been a good deal of publicity given to them.

Mr. JOHNSTON (*Bow River*): Commendable or otherwise?

Mr. BENNETT (*Grey North*): Yes, commendable. I know what my farmers think about it; I have talked to my farmers and with other people who represent farming constituencies, who know the farmers' problems, and they inform us that they come right from the farmers. So I think we should get on with this bill.

Mr. JOHNSON (*Kindersley*): I am not surprised that the farmers in that area would be able to get at least something out of this government, but there is also the man from the Canadian Federation of Agriculture, a Mr. Broderick of St. Catharines, who made an intensive study of the whole matter of agricultural credit, and several suggestions were made at their annual meeting. So doubtless they are aware of what the government is doing. But is the government aware of what they want to have done? That is what we should be concerned with at the moment.

The CHAIRMAN: Just a minute, Mr. Johnson. The mere fact that somebody wants something does not necessarily mean that the government should do it. You are saying that we should do everything that somebody wants done. That is your argument.

Mr. BALCOM: Are some of the members saying that the farmers are not receiving anything out of this? Surely \$100 million distributed to 42,000 farmers is something.

The CHAIRMAN: There has been a little exaggeration, I would suggest.

Mr. QUELCH: The reason I am particularly interested in getting a report from the Canadian Federation of Agriculture is that in the brief which they submitted to the cabinet they made a two-page reference to the Canadian Farm Loan Board, and I think they should be brought here to answer ques-

tions on that brief. I think that when a brief like that has been submitted, at least this committee should have the privilege of questioning them regarding the brief which they submitted to the cabinet.

The CHAIRMAN: Submitted when?

Mr. QUELCH: This spring—"A statement of policy regarding farm credit as adopted by the board of directors of the Canadian Federation of Agriculture, January 26, 1956". I think they should be brought before this committee and we cannot do that unless we have representatives from the Canadian Federation of Agriculture here to answer questions regarding it. They claim that if the board were a little less conservative, it would be possible for them to reduce their interest charges by one per cent.

The CHAIRMAN: Why not question the chairman? He is here.

Mr. HENDERSON: Mr. Chairman, as Mr. Fleming has said, this matter should not be denied. We are not denying anyone. But we must consider the fact that for our ancestors in this country farming was a basic concern; and the fact that farmers have a great deal of initiative; and the fact that their farm unions and organizations have a great deal of initiative too. I submit that we should ask them to come before us, and I think we would be casting a reflection on the farm union and their members if we failed to do so, to the effect that they have not been doing their job because they have not attempted to come before us. I also have farmers in my riding, and I have had no complaints about this. Therefore I urge that we get on with the legislation, and I think it would embarrass the farm union for us to say that they could not appear.

Mr. RICHARDSON: I now move, Mr. Chairman, that we proceed to a consideration of the bill.

Mr. ARGUE: I do not think that such a motion is in order, because we are now considering the bill, and we are engaged in a general discussion on the activities of the Canadian Farm Loan Board, and of its organization.

Mr. RICHARDSON: Mr. Chairman, I move that we now proceed with the first clause of the bill.

The CHAIRMAN: Mr. Chester is here, and if you have any questions to ask him he is available.

Mr. BLACKMORE: I wonder when the steering committee began to influence this meeting. We have only appointed it this morning; surely the steering committee should have something to say.

The CHAIRMAN: The steering committee is simply a committee set up by this committee to consider matters and to report back to this committee. The steering committee has no authority.

Mr. BLACKMORE: Surely this is one of the most important matters which will be before us.

Mr. CAMERON (*Nanaimo*): What other function has it got?

The CHAIRMAN: It will have a great deal to do.

Mr. CAMERON (*Nanaimo*): Surely this is the type of thing that a steering committee is set up to deal with, to arrange the business and how it is to be done.

The CHAIRMAN: You and your colleagues obviously do not wish to go on with the bill, Mr. Cameron.

Mr. JOHNSTON (*Kindersley*): I do not think we can assume that because the government has decided to bring in some amendments to the Canadian Farm Loan Act that it is to be an end all. One aspect is to increase the amount of the assessed value of the land from 60 per cent to 65 per cent.

The CHAIRMAN: It is not the assessed value.

Mr. JOHNSON (*Kindersley*): The loan is going to be made on 65 per cent of the assessed value.

The CHAIRMAN: Not on the assessed value.

Mr. JOHNSON (*Kindersley*): Oh well, on the appraised value.

The CHAIRMAN: That is quite different.

Mr. JOHNSON (*Kindersley*): That is one of the points, that there have been errors by the assessors, and that if we on this banking and commerce committee are to be responsible for giving serious consideration to any change being made in the legislation we should not deny ourselves the opportunity to have the farm organizations before us who have a definite approach which is quite different from the one which this committee has taken on this particular section. The Canadian Federation of Agriculture has advocated that the loans be made up to 80 per cent of the appraised value.

If you want to put yourself in the position of knowing more about the interpretation which should be placed upon this than the Canadian Federation of Agriculture—as perhaps we would expect you to do, on the basis of government policy—it would certainly be in opposition to the democratic procedures which have been extolled on various occasions.

We will find that the Minister of Agriculture is one who approves calling upon farm organizations and appreciates the value of them, which seems to be at variance with what some of the government members of this committee feel, that the farm organizations are isolated.

In the five days since the bill was referred to this committee and the time that this committee was called,—I received my notice only yesterday—you expect the farm organizations to have made urgent requests to you for permission to present their case before you.

Mr. BENNETT (*Grey North*): We said we were prepared to go on with the bill.

Mr. JOHNSON (*Kindersley*): It was suggested here, and I think the record will show it, that some of us have considerable reliability in the status of farm organizations in Canada, and that we should all take the opportunity to invite them before us so that we may have something to gain by it. We would not be embarrassing the farm organizations by having them come before us to present their views on the matter of agricultural credits. The only people who will be embarrassed will be the government in their niggardly approach to this whole matter of farm credit.

Mr. HOLLINGWORTH: I represent the farmers of York Centre, and they would instruct me to proceed with this bill, because it is of benefit to all the farmers. Therefore I think we should proceed with Mr. Richardson's motion. Mr. Johnson has said that we have small loan legislation coming up after the recess, but I do not see why we should not go ahead this morning. I have some of the most prosperous dairy farmers in Ontario in my riding and I am sure they would be pleased to have us go ahead this morning and proceed with this bill.

The CHAIRMAN: This sort of conversation could go on for ever!

Mr. BLACKMORE: And it probably will, too!

The CHAIRMAN: I do not think we are here to discuss a point like this. We are hear to discuss the bill and to ask questions of Mr. Chester, and I think we should get on with it. I think we should open a full discussion on this matter. Nobody is unaware of your brief. You have made it very clear.

Mr. JOHNSTON (*Bow River*): I am amazed that you are trying to cut down discussion on this bill.

The CHAIRMAN: No, not on the bill. We have not got the bill as yet.

Mr. JOHNSTON (*Bow River*): I am amazed that you are trying to curtail discussion at this point, because I think that the chairman should show the lead in promoting the admission of all people who are interested in coming before the committee to make their representations.

The CHAIRMAN: The only thing you want me to show is the lead that you go on talking.

Mr. JOHNSTON (*Bow River*): You are trying to exclude the farm representatives from coming here. I think that is certainly a very unfair attitude particularly for one to take who is in the position of chairman. And I am indeed surprised as well to hear the government supporters on this occasion coming out and doing their level best to rush this through to the exclusion of having farm representatives come before us to give us their views on this matter. This is a very important thing, and from the very fact that we are going to charge 5 per cent, when other organizations in Canada have been getting it at $3\frac{1}{2}$ per cent, it seems to me that we should be offering the farm representatives an opportunity to come here to say if they agree with that type of thing.

The CHAIRMAN: If you are getting on the specific details of the bill, there is obviously a proper place to discuss them.

Mr. JOHNSTON (*Bow River*): Let us not get too technical on this thing.

Mr. CAMERON (*Nanaimo*): You have overlooked the fact that what we are discussing at the present time is the brief which was presented by Mr. Chester and that it is in that brief that the interest rates are set forth.

The CHAIRMAN: That is a very good point.

Mr. CAMERON (*Nanaimo*): So I suggest that Mr. Johnston is out of order and is ridiculous.

Mr. RICHARDSON: On a point of order which I would not have raised except that my friend raised a point of order; I submit to you, Mr. Chairman, on a point of order, that I have, as a member of this committee, made a motion, and that motion is before the chair. The motion is that we proceed now to clause 1 of the bill.

Mr. JOHNSTON (*Bow River*): May I make an observation. I have been here a long while too, and if there are to be points of order and observations made, nobody should interfere with me because he wanted to raise a point of order.

Mr. RICHARDSON: I sat down and you should have sat down.

Mr. JOHNSTON (*Bow River*): We are discussing the brief now. You admit that, and it is obvious why we refused to hear the others.

The CHAIRMAN: We have not refused to hear the other people. If you say that anybody has refused to hear these organizations, then you are simply stating something that is plainly untrue, and I do not want to hear it again because it is not right.

Mr. JOHNSTON (*Bow River*): I shall say this to you, Mr. Chairman, and you are going to hear it whether you like it or not. The first thing is that we are endeavouring here, consciously, to push this thing through. We are in fact closing off these other organizations. We are stopping them from having an opportunity to come down here and give their brief. Whether we like it or not, the effect is the same; I submit that these organizations should be given the opportunity; they should be asked to make their representations,—because this is vital to them, and if it did not concern them very much I would agree with the chair—but this is of vital interest to farm organizations and I think we should be lenient and say to them, “if you want to come,

all right; but if you do not want to come, then it is still all right". And after Easter we will proceed with the bill, and I think we would all be quite satisfied to proceed. Thank you.

Mr. HOLLINGWORTH: We are not trying to push this thing through. I just want a discussion on it.

Mr. FLEMING: Mr. Chairman, I hope that I can contribute something to harmony here. The discussion we are having this morning resolves around the problem of how we are going to go about our tasks in this matter, and it seems to me that it points to the fact that we have a steering committee to do this very thing. That is the whole point of a steering committee, to save the time of the main committee and to avoid a discussion of this kind. That is the function of a steering committee.

Some members have been here longer than I have, but I have had eleven years on this committee and I do not remember a jangle in this committee on how we are going to go about our task on any particular bill. It may be that we have had such discussions on other committee, but I do not think we have had them in this committee, and it has been largely due to the fact that the chair has been in consultation with the parties, either through a steering committee or directly, in regard to what is the acceptable and sensible way of going ahead with the task. We have a steering committee.

The CHAIRMAN: It was only set up this morning and it has not had an opportunity to meet as yet.

Mr. FLEMING: I was going to comment on that. It was decided at our first meeting some two weeks ago that a steering committee would be set up and would in fact be operative. Our party indicated to you about ten days ago our nominees to the steering committee. It should be called together without delay to review this matter, when some acceptable procedure could be worked out. I am sure that the further we go along with this type of discussion, the more difficult it will be to arrive at some generally acceptable procedure.

The CHAIRMAN: I think that is a sensible statement and I suggest that we get on with the question and that, after this morning meeting adjourns, we have a meeting of the steering committee and get ahead with it, so that we can make recommendations to the main committee.

Mr. FLEMING: I would like to add an observation about the matter of our hearing farm organizations. So far as the rest of us are concerned, I do not think anybody here wishes to find himself in the position of holding back legislation whether it meets his views or not, when that legislation is going to be of benefit to anybody. We are all here to get on with the business, and to act as expeditiously as we can. But we always have those who may wish to be heard with respect to legislation of this nature, and I am going to urge the view that this matter is of sufficiently wide-spread importance that I think that national organizations of the kind which we customarily recognize in this committee should be given the opportunity to be heard if they so wish. But that is not to say that we have to go out and urge them to come here. It is simply a matter of offering them the opportunity. It is not a matter of inviting local organizations in. It is a matter of finding out those organizations that we normally deal with and whose status is recognized to be national.

Again on this matter of sittings, we have all had very short notice. There may be others like myself who should be in other committees right now; and then there is the matter of sitting this afternoon while an important debate is proceeding in the House. I have to speak in that debate this afternoon so I cannot be here. We only learned about this meeting last night. We all recognize that there is not time to force it through in two days now so, let us arrive at a procedure that we are going to adopt in a calmer atmosphere than

we have here this morning. In that way I believe we will get along faster—if we could have a meeting of the steering committee and could sit down in a calm atmosphere and try to arrive at something which is generally acceptable as far as possible.

Mr. CARRICK: If the steering committee meets and considers a course which should be followed, would that committee be obliged to make its recommendation to this committee?

The CHAIRMAN: Yes.

Mr. CARRICK: What would be the difference?

Mr. FLEMING: There is this difference, and it is the same with the recommendations of the sub-committee of all committees of the house, the general committee knows that all the parties are represented on the sub-committee and that the questions have all been thrashed out by that steering committee before it brings back its recommendations.

The CHAIRMAN: They are unanimous.

Mr. FLEMING: Quite so, and I think that in this committee in the past they have always been unanimous. They may not be unanimous on every occasion, but at least the committee does not go through the sort of thing we are going through here this morning.

Mr. QUELCH: I have been serving here on this committee since 1936 and this is the first time anything like this has come up. It has always been the custom of the steering committee to meet first, and had it been able to meet at this time, and had a request been made to it for representatives of the Canadian Federation of Agriculture to appear before this committee, I do not for one minute believe that such a request would have been refused. It has never been refused before. On other occasions when any of us have asked the steering committee to invite certain organizations which have a very definite interest in the matter before the committee, that request has been granted. But unfortunately coming up as it has—and I was the one who raised it—not with the idea of a discussion like this taking place—but unfortunately the discussion that has taken place has now grown into a partisan affair, and I think most of the members of this committee would agree that it is reasonable to ask that the Canadian Federation of Agriculture should appear before this committee, because they have submitted a brief.

If they do not appear, then Mr. Chester will be answering questions and I want to bring before Mr. Chester some points which were raised by the Canadian Federation of Agriculture, and he would know certain answers. But we will not know what was exactly in the mind of the Canadian Federation of Agriculture when he is questioned about the charges which are in this brief. Therefore I think that the Canadian Federation of Agriculture representatives should be here at the same time as Mr. Chester in order to answer questions regarding their brief.

I was surprised at the attitude taken by Mr. Bennett when he said this was just an amendment and not a new bill. But he knows very well that before the veterans committee, when we have had amendments to the Veterans Allowance Act, it was always the practice for the veterans' associations to appear before that committee and make representations.

Mr. BENNETT (*Grey North*): In the case of the Veterans Affairs Committee, the Legion and other veterans' organizations always wrote in to say that they wanted to appear, and we acknowledged their request, as national organizations, and they had that opportunity. But I do not think we should get into a partisan debate. I know how my farmers feel about this bill. The bill was mentioned in the Speech from the Throne. The Federation of Agriculture has included a reference to it in its brief. Their headquarters is right here in

Ottawa, and you would have thought that if they wanted to appear before this committee, the Federation and the Farmers Union would have said so. There is no harm, and if they wish to appear we should not exclude them. But I urge that this bill be proceeded with so that the benefits for the farmers may be realized.

Mr. FLEMING: How can you do that? It has to go to the house, and in the house it has been said that today and tomorrow are to be devoted to the budget debate so there is no possibility of the bill being considered there before the recess, and the Senate has already risen.

Mr. BENNETT (*Grey North*): The Senate has risen, has it? Well, it is not possible to get it through before Easter, then. But my point was that we were anxious on this side to get on with the bill and to get this provision in force. I would like to say to Mr. Johnson, who rather imputed that the government members were against the farm organizations. The Canadian Federation of Agriculture and the Farmers' Union are very strong in my riding. In fact, the Farmers' Union started in Grey North, and I have worked with them both and they have helped me a great deal. I have said in the house that I have farmers who have argued more and more for farm organizations and marketing boards as at least a solution to part of the farmers problems, and we on the government side speak from the strength of these two great farm organizations, and we listen to their advice.

I discussed this matter with the Canadian Federation of Agriculture and with my Farmers' Union people and I would suppose that every member would have done that before he came to this committee. I do know how my farmers feel and I am prepared to represent them, and I can go on with the bill without listening to farm organizations. However, I do agree that the steering committee should thresh this out. But could we not have a compromise, and go on with the questioning of Mr. Chester for the next half hour or hour, and then rise, with the agreement that the steering committee will meet and try to settle what we are squabbling about, because there is no doubt we could go on squabbling here for two or three hours? But let us take the opportunity of asking Mr. Chester some questions.

The CHAIRMAN: That is the very suggestion I made before, and I think it is only fair to point out that the steering committee could not meet before it was appointed.

Mr. BENNETT (*Grey North*): If the Senate has risen, then my view is changed somewhat, because we could give an opportunity to the farm organizations to come here. I was anxious to get on with the bill before Easter, but if that is not possible, it would not hurt us to have the farm organizations.

Mr. FLEMING: The Senate has adjourned to a date after the middle of April.

Mr. FAIREY: Until April 24.

Mr. JOHNSTON (*Bow River*): I want to make one reference to what Mr. Bennett said a moment ago. I appreciate his point. He said that he gets home every weekend where he can discuss these things with his farm organizations. That is probably so, and he is thereby in a position to speak on behalf of his farmers. But those of us who come from western Canada, cannot do that over the weekend. We would have to travel 2,000 or 3,000 miles. So the only thing we can do in this case is to have the farm organizations come before us, and then we would be able to contact them and see what their opinions are. So in that regard we are possibly quite different from Mr. Bennett.

The CHAIRMAN: There is such a thing as Her Majesty's mails.

Mr. JOHNSTON (*Bow River*): With the winter we have had out at Bow River it would be a superhuman person who get in contact with his farmer organizations in that time. But I would point out the difference between those of us

who come from the east and those who come from the west in regard to our local organizations.

The CHAIRMAN: It is obvious that the bill cannot go through before Easter.

Mr. JOHNSON (*Kindersley*): I think Mr. Bennett's suggestion is a very good one. The steering committee should accept the responsibility for this thing and it should clarify this whole business of appearances before this committee. I do not think we should go on the promise of anyone who wants to appear before the committee. Anyone who wants to appear before this committee should have the responsibility of taking up the time of this committee. But I think our responsibilities should rest with us in sending out invitations to various organizations that we want to have before us, and I think on the basis of the Banking and Commerce Committee in past years that is a very important item indeed. I do know that the Canadian Federation of Agriculture does want to appear before this committee since they have a policy on small loans, and they are desirous of appearing before this committee and presenting their policy to us in that regard.

The CHAIRMAN: There is one other thing I think I should mention. Nobody wants to sit in the afternoon if they can help it. But we have been slow in getting under way because when the small Loans bill was referred to us Mr. McGregor requested that it should be held over until after Easter because he did not yet have the 1955 figures. But he will have them after Easter. Then we have the Industrial Development Bank reference, and the report of the Bank of Canada, both of which the committee is going to get into, and it is very heavy stuff. I think it is going to be almost unavoidable that we shall have to sit twice a day sometimes.

Mr. FLEMING: We can discuss that in the steering committee.

The CHAIRMAN: Nobody is trying to force it on you.

Mr. FLEMING: Nobody will deny the problem, but I am sure that everybody will be cooperative.

The CHAIRMAN: That is why I am anxious to use this one day on this bill.

Mr. JOHNSON (*Kindersley*): In the changing of any agricultural policy consideration must be given to the desirable end of that policy and I notice in the statement of the Canadian Farm Loan Board the fact that it came into existence because of a demand for lower interest rates, longer repayment terms, and a dependable source of funds for farm mortgage lending in Canada. I think we must consider this in the light of what is being done in other countries. And as to the pattern that we should follow here, in Canada, I know that the members of the committee would appreciate it if Mr. Chester would give us a résumé of what the Farmers' Home Administration does.

The CHAIRMAN: What is the feeling about the steering committee as to when it can meet? If we meet at 2 o'clock it only gives us half an hour which does not amount to very much. Do we want to leave it until after the Easter recess?

Mr. JOHNSTON (*Bow River*): I think it should be done before then, otherwise we would then be in the same position as now.

The CHAIRMAN: Why not have it tomorrow morning? That would get everybody, would it not, or do you have a caucus?

Mr. ARGUE: Yes, Wednesday morning is caucus morning for most parties. I do not argue against it, but I point out that Wednesday morning is caucus morning.

The CHAIRMAN: I am trying to get some time which would be most convenient for everyone. If I call it for 2 o'clock I am sure I would get everyone but they would be here only for half an hour before the orders of the day.

Mr. QUELCH: We can have a meeting of the whole committee while the house is in session.

The CHAIRMAN: There is one scheduled for this afternoon, yes.

Mr. QUELCH: Could we not have it while the house is in session?

Mr. JOHNSTON (*Bow River*): Could we possibly proceed with the second meeting this afternoon if we finished with Mr. Chester's statement this morning, because everybody will not be discussing the bill? And I think we could finish with the statement pretty well this morning.

The CHAIRMAN: You expect to finish this statement this morning?

Mr. QUELCH: Do not be too optimistic.

The CHAIRMAN: I think you are showing undue optimism.

Mr. ARGUE: I do not know what the procedure will be, and I do not know if it is necessary for us to consider the statement in a formal way. It is just a general statement on the subject.

The CHAIRMAN: It is really to give the committee background, and to give the members an opportunity to ask questions if they wish.

Mr. ARGUE: Mr. Chester will be before us for some time and I do not think it is necessary in a formal way to dispose of this statement at any given moment.

The CHAIRMAN: It is not ever disposed of. It is something intended to be of assistance to the committee.

Mr. ARGUE: That is what I take it to be.

The CHAIRMAN: Let me urge that the steering committee meet here right after the afternoon meeting.

Mr. ARGUE: Why not right now?

The CHAIRMAN: Well, Mr. Fleming has gone, Mr. Macdonnell is not here, Mr. Benidickson is not here and Mr. Valois is not here; Mr. Fraser is not here and Mr. Stewart is not here, so the thing would be completely abortive right after this morning's meeting. But I can get some of them on the phone to see if we can arrange for a meeting later on today. I do not know how long it will be this afternoon before we finish with this report.

Mr. JOHNSTON (*Bow River*): Are all the members of the steering committee here in Ottawa, or have some gone home?

The CHAIRMAN: Mr. Valois is coming in on the noon train. Mr. Benidickson, Mr. Fraser (*St. John's East*), Mr. Fleming and Mr. Stewart are in the building. Most of them are here.

Mr. FRASER (*Peterborough*): Mr. Charlton will take the place of Mr. Macdonnell. He will be put on the committee this afternoon.

The CHAIRMAN: I suggest that as soon as we finish with this statement we have a meeting of the steering committee. Would that be agreeable? As soon as we finish consideration of the statement and the questioning of Mr. Chester this afternoon?

Mr. ARGUE: The statement being this?

The CHAIRMAN: Yes. Let us call it a preliminary canter.

Mr. ARGUE: I suggest that you should set the time for the meeting of the steering committee, and that the time should depend on the committee passing this statement.

The CHAIRMAN: We are not passing it, but simply finishing the discussion on it for the time being.

Mr. ARGUE: Let us set a time and not say that the discussion is finished.

The CHAIRMAN: If the steering committee meets this morning, several of its members will be unable to attend.

Mr. JOHNSON (*Kindersley*): Set it for five o'clock.

The CHAIRMAN: Very well.

Mr. FRASER (*Peterborough*): Mr. Fleming will be speaking this afternoon on the budget. I am not sure when he is on, but I would like to hear him.

The CHAIRMAN: Why don't you have him delegate Mr. Michener or yourself to act for him on the steering committee? Naturally I want to accede to everybody, but we cannot do everything. If Mr. Fleming is as active as he always is, then we cannot be sure of pleasing him.

Mr. JOHNSTON (*Bow River*): Somebody else could take his budget speech for him in the house!

Mr. BLACKMORE: Would it not be worth while trying to avoid having a meeting while the budget debate is in progress? That would not delay us very much. There will be only one or two more days delay and, in that case we would not have a meeting this afternoon.

The CHAIRMAN: We are anxious to get along as fast as we can, because we are going to have a very heavy list of meetings after the recess, and they will go on indefinitely. So let us say 5 o'clock today for the steering committee. This meeting will reconvene at 3.30 and the meeting of the steering committee will be held at 5 o'clock.

By Mr. Johnson (Kindersley):

Q. I wonder if Mr. Chester would give us, roughly, the background of the Farmers Home Administration?—A. I do not know Farmers Home Administration but I do know our counterpart in the United States, that is a government scheme of loans that are under the federal government of the United States. Is that what you have in mind?

Q. You would be familiar with that detailed information, and how they operate in the United States?—A. Their system is not the same as ours in Canada. They have what they call Federal Land Banks; there are twelve of them in various areas in the United States, but they are not too directly connected with the government of the United States, although there is strong connection but not financially. Then, I understand they issue bonds to the public, which bonds are income tax free, so to that extent I would say that they are subsidized by the United States Government. However, what you want to know, no doubt, is their loan limits.

Q. Yes, the Farmers Home Administration.—A. This is a federal land bank, and from their offices in the United States they lend money under government supervision.

Q. The federal land bank is different?—A. No. That is the only thing you can compare us to in the United States.

The WITNESS: The loan limit in the United States is 65 per cent of the appraised normal value. They have what, applied to Canada, would be a fantastic dollar limit; it was \$100,000 in 1955 and I believe it is even greater than that at the present time. This information is dated August 21, 1955, and I do not know of any other changes which have been made since.

The length of loan which they are authorized to make is up to 40 years, and the most common loans they have been making have averaged around 30 years. Their interest rates vary as between the areas; they have twelve areas and the lowest interest rate in the United States, from the federal land bank, is 1 per cent. The next rate is $4\frac{1}{2}$ per cent, and the other rate is 5 per cent. So there are three rates of interest charged on mortgage loans in the United States in varying areas by the Federal Land Banks.

By Mr. Johnston (Bow River):

Q. How do they designate the areas?—A. They have a bank at Louisville, New Orleans, St. Louis, St. Paul, and Omaha. I can give you the names, but I cannot describe the particular areas.

Q. Does it depend on the economic condition of the area?—A. No, I think it is because the United States is a larger country and requires twelve banks, whereas we can do it in Canada with one farm loan board. That is probably the background of it, but I am only guessing. However, they are pretty well sorted out by what you might call farm economic areas.

Q. May I ask another question. I noticed in your statement on page 2 that the mortgage rates charged to farmers by all mortgagees could properly and fairly be influenced by that charged by this board. Would that be the same incentive in the United States? Would they be setting their rates in order to comply with the statement which you have made?—A. I cannot tell you what their policy or purposes are. All I can tell you is what I know to be the facts, and that is the loan limits, and the percentage that they charge their borrowers. What the thinking back of it is I cannot tell you.

By Mr. Blackmore:

Q. Would you mind just proceeding with your statement?—A. That is my statement.

Q. Is that all you have?—A. Yes.

By Mr. Johnston (Kindersley):

Q. I was lead to believe that the Royal Commission on agriculture and rural land went into the federal home administration question.—A. They were comparing the wrong types of business if they did, because the type of business we carry on is only comparable to the Federal Land Banks in the United States.

Q. The farm loan organizations are established to consolidate the farmers' debt and assist him in purchasing equipment; and isn't that more or less the purpose of the Canadian Farm Loan Board?—A. I think your conception of the Canadian Farm Loan board might be wrong, because we are a land mortgage loaning company, we are neither an establishment agency nor a benevolent society.

Q. Then you had better change the details in the last few pages of your annual report because there you say:

"Purposes for which made:

To pay debts, to purchase livestock and farm implements, to make farm improvements, to erect new buildings, to repair buildings, to provide for expense of farm operation, to assist in the purchase of farm land, etc."

Is that not identical with the function of the farmers home administration in the United States?

The CHAIRMAN: Where is that?

Mr. JOHNSON (*Kindersley*): I took it from page 14 of the annual report of the Canadian Farm Loan Board for the year ended March 31, 1955.

By Mr. Blackmore:

Q. I understood that when the Canadian Farm Loan Board was set up it was intended that its function should be limited only to dealing with mortgages. One would think that if that was the case, we ought to have a change of attitude today because just for one reason, the cost of modern machinery for one establishing himself as an economic farm is tremendous. It runs into some \$20,000 to \$30,000; and if this particular organization is not designed to aid a farmer in the accomplishment of a business set-up, then

surely we should have some bill or board in Canada which would do that. Am I wrong in my thinking about that?—A. What is your question, please?

The CHAIRMAN: Mr. Blackmore, I do not think you should ask Mr. Chester to express an opinion on government policy.

By Mr. Blackmore:

Q. No, what I am trying to do is to get further details concerning the function of the Canadian Farm Loan Board. I gathered from something the witness said a few minutes ago that the Canadian Farm Loan Board was designed to function purely in respect of mortgages which farmers might have on their land, and it helped them only with these mortgages.

I wondered if that had been the only purpose of those who set up the board and if that was the purpose today for our amending the act.—A. It is not a purpose; it is a method. The only way we can loan money in Canada is by a mortgage, a first mortgage on the farmer's property. That is our security; that is our method!

Q. A person can do anything he wants to do with the money he borrows, I presume?—A. No, not altogether. We have certain limitations. We can pay his debts, assist him in purchasing land, and assist him in agricultural purposes; but we do not lend money to send a man to Florida for the winter, if that is a fair comparison. That is a thing we avoid.

By Mr. Blackmore:

Q. I would agree with you completely, but would you not loan a man money with which to buy a new tractor or combine?—A. Oh yes, that is an agricultural purpose; it is in our act, and we are allowed to lend money for that purpose. The Farm Improvement Loans Act was set up particularly for that purpose, but we can do it as well.

By Mr. Johnson (Kindersley):

Q. Is it the function of the board to establish a farm as an efficient unit? Is that the objective of the act?—A. What do you mean by the establishment of a farm as an efficient unit?

Q. It is obvious.—A. We are set up to assist a person to establish himself on a farm. It is expected of course that he will be able, from his own resources, to assist himself to a degree. That is inherent in the 65 per cent limit of our loan.

Q. I can see where it differs from the Farmers Home Administration. Its function is to establish the farmer as an efficient unit.—A. I think it is more along the line of the P.F.A.A. Ours would not assist the farmer in the sense that we give something that is not paid back.

By Mr. Argue:

Q. Let us take the case of two farmers who come in and each one makes an application for a loan. Farmer A is a small farmer, a young man who is married and has a family, and certainly on the basis of social need he needs money. He appears in your judgment to be a fairly good risk. You are inclined to pass him.

Then let us suppose another man comes in, Farmer B. He has a lot of money with two or three sections of land. He could go to any mortgage company for a farm loan, but it is a matter of choice with him, and he prefers to come to the Canadian Farm Loan Board and make application. There is no question in the mind of the Canadian Farm Loan Board that this man is an excellent risk. There is no doubt that, following an investigation, some money will be loaned to him in accordance with the purposes of the board. Does

farmer B who is less in need of money, and is perhaps a better risk, in the business sense than Farmer A—is he given a preference in respect to his application?—A. No, he is not; and quite likely from your description of farmer B he would not get a loan from the Board.

Q. Do you want to go ahead? It is my information—and it could be wrong, but it is my information derived from personnel of the Canadian Farm Loan Board—that the main requirement, the governing factor, is whether the man is a good risk in the monetary sense or not, and that may or may not have been borne out by your statement a little while ago that you are in the mortgage business, and you have not the same purposes that they have in the United States.

I am very pleased to hear you say that if a man comes in who obviously does not need a loan in the sense that he cannot get it in any other way, that it is the policy and practice of the board to turn such people down. I have been told that the board in fact, and the people who process the applications, in fact look at them in precisely the same way as a mortgage company would look at them, mainly from the standpoint of making a return on the investment.

—A. No, that is not so. Our major purpose in our processing, when we approve a loan, is not for the purpose of making money. That is what you infer there, but it is not our major consideration whatsoever. As a matter of fact, I do not think it is ever considered.

Q. You are not interested in making any money. But you are interested in not losing any money?—A. We are interested in not losing any money, yes, if we can avoid it.

By Mr. Bennett (Grey North):

Q. You do apply a second test, do you not? If farmer A has a farm which is worth \$5,000 and you are willing to advance him up to 60 per cent you are still looking at his implements and his livestock to find out if he can make a go of that farm, even though that farm could be sold for \$5,000 and your security would be safe. This is not a question. I am, rather, complaining that the Canadian Farm Loan Board is pretty conservative in granting loans under such a situation. Where the fellow needs money, and he has not got much in the way of cattle, hogs and farm equipment, I think that the Canadian Farm Loan Board could be a little bit more generous sometimes in the granting of a loan in such cases. The only question I have to ask is this: Is it true that you apply that second test? In other words, you are not going to grant money for a farmer who has no chance of making a go of it, because your first test is the security for the land, and secondly, whether he can make a go of it. I appeal to you that with farm income down and many farmers in need, I think that with respect to test No. 2 you might be a little bit more generous than you have been in the past.

By Mr. Carrick:

Q. With respect to Mr. Argue's farmer B, you said you would probably refuse that loan. Why?—A. Because the man did not need the money. If the need for money was not a need for agricultural purposes, he would not get the loan.

By Mr. Argue:

Q. No. It was for agricultural purposes.—A. You said that he did not need the money. You said that he had a lot of money.

Q. I am saying that he obviously wants some money for something or he would not go in and make an application. He already has three sections of land, and he is in the one per cent class of farmers who have large farms.

But there is a half section of land across the road and he wants to buy it. He has not got any cash, but he may be worth \$100,000, or even more. He could go to the Huron and Erie Mortgage Company, or to any mortgage company, but he thinks that the Canadian Farm Loan Board has a somewhat lower rate of interest, he likes their long amortization period, and he thinks that it is probably preferable, all other things being equal, to deal with a government agency. So he comes in and applies for a mortgage. In the case of a man like that, is his application likely to be approved, or is that man likely to be turned down because he could go somewhere else?—A. I would have to know a whole lot more about that farmer and his farm. To try to put it in a certain category is almost impossible. We are lending on the basis of the farm, and the purpose of the loan, the money we lend, has got to be for agricultural purposes.

Q. Surely!—A. If the man has a valuable farm, let us say one worth \$10,000, and we appraised it at \$10,000, upon an application for a loan of let us say \$1,500, the chances are that the loan would go through if it was for agricultural purposes. But we are only talking about hypothetical cases and I do not see how I can answer you specifically without more details.

The CHAIRMAN: Perhaps, Mr. Argue, you should ask Mr. Chester what the factors are which they consider in making loans?

By Mr. Argue:

Q. Yes.—A. In making a loan, our appraiser, who is probably the most important employee of the board, will give us a picture of that farm at the time that he gives us his appraisal, and if it is wrong, it is going to be wrong all down the line. Appraisals are made by the employees of the board. There are many factors which are taken into consideration such as the type of soil, and the crop records. Anything that has to do with the productivity of the land is always considered by these experienced appraisers in assessing the value. Then there is the matter of the buildings; they are all included—and thus we arrive at a price. We know the district and we would have a report on the immediate district and we would know the comparability of the security that is being offered to us—how it compares with other farms in that district.

By Mr. Quelch:

Q. How do you apply that scale?—A. If you will kindly wait until I have finished, I would appreciate it, because I want to keep my trend of thought going.

The CHAIRMAN: I am making a list of those who want to speak. I have Mr. Henderson, Mr. Quelch, and Mr. Michener.

Mr. BENNETT (*Grey North*): I think it is significant that you mentioned \$100,000 for a western farmer.

Mr. ARGUE: I did not say "western" farmer.

Mr. BENNETT (*Grey North*): There is no farmer in my riding who comes close to \$100,000.

Mr. ARGUE: I did not even speak about your riding. There are corporation farms in eastern ridings. I am opposed to big farms wherever they are; but I am sure there are many big farms on the prairies.

The CHAIRMAN: Let us get on with this. Let Mr. Chester finish his statement.

The WITNESS: After we have a description of the security, the district, the soil, the buildings, and everything which comprises the physical security, then we have, as a rule, a personal report on the applicant for the loan which goes into some fair amount of detail. We have a record of his previous

years' production, a record of the five previous years' production, we have a record of his cash receipts and cash expenditures during the preceding year; we have a list of his organization such as his livestock and his equipment; we have a list of all his current debts, and when they were incurred, and we have a pretty fair idea of his attitude towards debts. It is on these factors along with others that go with the loan business that we form the basis on which we arrive at whether the man is going to get a loan or not, or how much of a loan he is going to get if we so decide.

By Mr. Henderson:

Q. One of the purposes for which we are here today is to find out why the loan should be 65 per cent of the appraised value of the land. My concern has to do with the appraised value of the land, and up to that point we can get a loan up to 65 per cent. I was interested to hear you say that the appraiser was the most important person. I would like to ask about this personnel and those whom you consider competent to do this work, because, as you have said, if they are wrong, in your own words, they are wrong all down the line. In my experience appraisals in most instances have been too low. What type of personnel do you employ as appraisers in the Canadian Farm Loan Board?—A. Well, you are speaking of Ontario, I presume?

Q. Yes.—A. Well, if you are particularly referring to Ontario, our appraisers—I do not know how you would type them, but they are experienced in business. I am thinking of one appraiser at headquarters; he has been in the business practically all his life. We have several bachelors of science in agriculture acting as appraisers.

Q. What other qualifications would they have beside that?—A. They all have to have a farm background to begin with. I think that is most necessary; and many of them are experienced farmers. We also have a lot of part-time appraisers.

Q. You say they are mostly experienced farmers?—A. Not necessarily. A man may have a lot of experience in the first 25 years of his life, and then go into the loan business for the next 25 years, and you would not call him a farmer at this stage; but all our appraisers without exception have a farm background and experience, as well as other qualifications.

Q. Do you mean that they farmed themselves?—A. Pretty well, yes.

Q. Some of these people have been in the department for a long time. Would they have any experience gained from working out in the field before they went into the department, or were they simply taken out of a certain category in the civil service and made appraisers?—A. I suppose you could say, about anybody who starts with us who is under 25 years of age, that his life work would be appraising.

Q. Yes. And when would these college graduates start appraising, following their graduation from agricultural school?—A. If you will tell me which one you are referring to, I will give you the answer. I cannot give you a general answer. We do not look to anybody as an appraiser who is too young; 27 or 28 is as low as we like to take them.

Q. Have any of these men had experience in real estate?—A. Some have, yes.

Q. Experience gained outside your department?—A. Yes.

Q. When they do their appraising—I am not talking about after it comes to you—but when they do their appraising, what are they to consider in order to appraise a farm properly?—A. I think I have outlined to you the security that we require.

Q. Not security; the farm itself, and the value of it in the district in which it is situated; do they take into consideration the market value of that

farm?—A. It is taken into consideration. The appraiser puts in his report what he considers to be ordinary sale value of the farm under ordinary conditions.

Q. What do you mean by "ordinary conditions"?—A. There are forced sale conditions. I am not talking about that sort of thing now, or of unusual conditions. I just mean ordinary conditions.

Q. Some farms in Mr. Huffman's district are worth a great deal more money than they would be if they were located just outside of Ottawa. Would that be taken into consideration when they are determining their appraisal?—A. Are you referring to farms which are adjacent to a city?

Q. No. I am referring to a farm in a particular area where it has a higher market value due to its geographical location than it would have elsewhere.—A. The loan must be repaid from the production of the farm, and if a man cannot produce sufficient to repay our loan, then he cannot get a loan. The sales value of farms all across Canada, probably with very others; and in an area which is close to Toronto, for instance, there are farms which 20 years ago you could have bought for from \$60 to \$70 an acre, but today you would have to pay from \$3,000 to \$5,000 an acre.

We cannot take the real estate value into our appraised value because our act says that our appraised value must represent something on which we can lend, and it is the product of that farm on which we lend, from which we must get our repayment.

Q. Do they take your loan on the floor price as in a forced sale of that land?—A. No, it is the productive value. These things are only of interest; the sales value and forced sale are interesting, and we try to keep fairly close because it shows the trend. But that is not the value on which we lend. It is productive value of the farm.

Mr. QUELCH: At a given price for the product?

The WITNESS: Oh yes. When products go up, then the income goes up and the value of the farm goes up, if it goes up for that reason.

By Mr. Henderson:

Q. Taking all that into consideration, some people have bought farms when they were run down. It is an advantage to this country to build up such farms. But we cannot do that in one year. It takes time. Suppose a man wanted to purchase a farm in a district which is run down. How can you determine the purchase value of that farm? And yet it seems to me when he is going to get a loan I think it is more of an advantage to have flexibility than straight productivity. I would like to have your opinion on that?—A. That farm you are referring to has not been operated for some time. With an abandoned farm we would know the farm and the soil, and we would know about the surrounding farms and we would take that into consideration.

Q. You would take that into consideration in helping him to get his loan?—A. Yes.

Q. I was interested to hear about your appraisers.

By Mr. Quelch:

Q. I think that most of us who are familiar with farming conditions will agree that the main criticism we hear is that the board is too conservative in its loan policies. I think Mr. Chester would agree that that is the charge that is probably made most often. I was interested in the description he gave of the basis upon which they established their loans. He mentioned a personal report. Where would that personal report come from? Do you go to the banks?—A. It is made as a confidential enquiry.

Q. You have a branch in each province?—A. Yes.

Q. Have you any advisory council or advisory body in the provinces, to consult with?—A. We have loan committees in our branch offices which would pass on a loan.

Q. Do you not actually use several bodies to help you arrive at your conclusions? Do you not make use of the V.L.A.?—A. In what sense?

Q. For the purpose of making an appraisal?—A. Only where we cannot make them ourselves; that is when we use the V.L.A. appraisors, but only when we cannot make them ourselves with our own employees.

Q. I asked you that question because the main criticism—I think a lot of the V.L.A.—but my own criticism has always been that their appraisals are ridiculously low. I say that from personal experience gained over a number of years, and I have found that to be so for years. Many of them still appear to make their valuations on a pre-war basis and they fail to recognise the real value of a farm today in my part of the country. Does the same thing apply to the Board? Do you recognise what the value of the farm land is today? You gave a description, but do you take into consideration the marketable value of the land at the present time?

Mr. BENNETT (*Grey North*): May I defend the V.L.A. for a few minutes. Our V.L.A. appraisers, our field men, are sent down for courses of instruction. For example, a man from my own riding was down for four weeks last month. Efforts are made to keep them up to date, and I am proud of the appraisers under the V.L.A. Other departments use them.

Mr. QUELCH: They are very safe!

Mr. BENNETT (*Grey North*): I have not had one complaint since I became parliamentary assistant about the appraisals under the V.L.A. These people are given these courses, and I think they represent the best body of appraisers in our country. If Mr. Quelch has any cases of complaint, I wish he would bring them to our attention, because in all the branches of the Department of Veterans Affairs, I think that of the Veterans Land Act stands out.

By Mr. Quelch:

Q. I think it is an outstanding department, myself, but I do question the appraisals. They are very low. I have had case after case referred to me in the past several years in which I tried to obtain higher appraisals, but it could not be done. On the question of their being too conservative, it is a fact that you maintain reserves considerably in excess of those required by law, do you not?—A. With respect to reserve funds, we have the statutory reserve which was set up in the act, and which has a total somewhere in the neighbourhood of \$778,000, I think at the moment, but we have no use for this fund. We cannot charge losses to it nor make use of it in the ordinary accepted terms of reference with respect to losses.

You will also see that under our act we are required to set up a reserve against losses. If that is what is meant by statutory requirements, then both of them are statutory requirements, because both are in the act; one is a clause in our act and the other is a requirement for the establishment of a reserve for future losses.

Q. But are they in excess of the statutory requirements?—A. I would say no, they are not in excess of the statutory requirements in the sense that I have just given you the statutory requirements. This is a matter of opinion about the reserves, whether they are too large or too small.

Q. Perhaps you would care to comment on this statement taken from the brief of the Canadian Federation of Agriculture on page 7, and I quote:

In a recent report the Auditor-General noted that the Farm Loan Board is providing for reserves substantially in excess of the requirements of the act under which it operates, and that nothing in the accounts pointed to the necessity for such reserves. Because of its relatively small volume of lending, its costs per loan are high. If the board were to discontinue setting aside its special provision for losses above the legal requirements, the interest rate could be reduced by $\frac{1}{2}$ of 1 per cent. If further, its present low volume of lending (less than \$8 million in 1953-54) could be doubled or better, lowered costs would, no doubt, compensate for a further $\frac{1}{2}$ of 1 per cent reduction in the interest rate.

Would you agree with that statement? I presume it must be a correct statement?—A. Which statement are you referring to, the one which the auditor made?

Q. This refers to the Auditor-General's report. He says that the Farm Loan Board is providing for reserves substantially in excess of the requirements of the act under which it operates.—A. Did you say legal requirements?

Q. They say: rates under the act.—A. But you have got two statements, one from the Auditor-General, and one from the Canadian Federation of Agriculture. Have you our report? I think it should be read.

Q. If you are quoting what the Federation of Agriculture said, that is why I thought it would be better if they were here.—A. I shall now read to you what the Auditor General said, from page 7 of the report of the Canadian Farm Loan Board for the year ended March 31, 1954, as follows:

The required reserve has been maintained, and at March 31, 1954 amounted to \$861,952. As well as this, the Board has followed the policy of making additional provisions against losses on loans computed, generally, at the rate of $\frac{1}{2}$ of 1 per cent on the principal of the first mortgage loans outstanding as at the close of each fiscal year plus the total amount of retained earnings on second mortgage loans. At March 31, 1954, the remaining balance of these provisions was \$2,292,089. Attention is drawn to the amount reserved because nothing noted in the examination of the accounts pointed to a necessity for such a large reserve. It may be noted from the balance sheet that as a result of the accumulated earnings to March 31, 1954, under Parts I and II of the Canadian Farm Loan Act, having been appropriated in full to the "Provision against Losses on Loans", there is a deficiency in the Board's surplus account in the amount of the accumulated loss of \$5,295 under the Canadian Fishermen's Loan Act.

Mr. JOHNSTON (*Bow River*): Before we get too far away from what Mr. Bennett said—

The CHAIRMAN: Mr. Johnston, you are further down on the list. The next one on the list is Mr. Michener.

By Mr. Michener:

Q. Before we adjourn I would like to ask a question arising out of what was just said. The interest rate was changed from $4\frac{1}{2}$ to 5 per cent on April 1, 1952, according to your report, by parliament, and the rate is a statutory rate? —A. No, the only rate charged by us is determined by the Board and it is not a statutory rate.

Q. I wondered if you had made any estimate of what difference it would have made in your reserves or in dollars if the interest rate had been continued at $4\frac{1}{2}$ per cent from April 1, 1952 down to the present time—that is

a period of about 4 years. Probably that is a question you cannot answer off-hand, but I would be interested if you could make some observation on the effect it would have had on the balance sheet of the board if the rate had not been increased by that half per cent over that four year period, in order to get some idea whether an unnecessarily high rate was being charged to meet your operating expenses.—A. Our cost of operation was 1.39 per cent of our investment in 1954-55. The cost of our money at that time also increased from 3 per cent to $3\frac{3}{4}$ per cent, so that while charging 5 per cent interest we were paying $3\frac{3}{4}$ per cent. Our margin for operating was less than our operating cost had been the previous year, and also less than our average cost of 1.28 per cent for 25 years.

By Mr. Michener:

Q. With this average cost you have established a reserve of how much?—

A. In 25 years we have established \$2,200,000 approximately.

Q. How much has the reserve increased in the past 4 years?—A. We will take 1955, that is 1954-55; our fiscal year-end is March 31 of each year, and this would be as at March 31, 1955. In 1954-55 we added to reserves \$57,000 and charged against reserves \$1,140, so the difference is about \$55,600, approximately.

Q. Have you the figure at which your reserve stood on April 1, 1952?—

A. Yes. Would you like to do it in that way, and subtract them?

Q. Yes.—A. 1952 is \$2,031,749.42.

Q. And today it is how much?—A. \$2,349,258.39.

Q. That is an increase of \$318,000 in that period of four years?—A. Yes.

Q. And your cost experience has been fairly constant established at 1.39 per cent of money on loan?—A. Our average is 1.28 per cent; that goes for 25 years, and last year it was 1.39 per cent.

Q. And, of course, the difference between the rate you pay for money and the rate you charge on your loans is variable? I notice your report shows it would be $1\frac{1}{4}$ per cent different now?—A. That is right.

Q. So that you have $\frac{1}{2}$ per cent over and above your average 25-year costs today; just about half of one per cent?—A. 1.39 per cent against $1\frac{1}{4}$ per cent.

Q. Your average was 1.28 per cent over 25 years, you told me?—A. Yes, but that takes into consideration years when administration costs were much lower. Let us take the present time.

Q. That is the average of the whole operation, 1.28 per cent?—A. Yes.

Q. And now operating at 1.75 per cent?—A. Yes.

MR. MICHENER: Thank you.

THE CHAIRMAN: For after lunch I have Messrs. Gour, Fraser, Johnston, Argue and Pallett, in that order, as wishing to speak.

AFTERNOON SITTING

3.30 p.m.

THE CHAIRMAN: Gentlemen, we now have a quorum and we might as well start. I believe the Conservatives have somebody they want to substitute on the steering committee.

MR. FRASER (*Peterborough*): Mr. John Charlton.

THE CHAIRMAN: He will be there instead of Mr. Macdonnell.

MR. FRASER (*Peterborough*): That is right.

THE CHAIRMAN: Mr. Benidickson from our party has to be away so Mr. Hollingworth will act on the steering committee.

Mr. CAMERON (*Nanaimo*): Mr. Johnson will act in place of Mr. Stewart for us.

By Mr. Fraser (Peterborough):

Q. I would like to ask Mr. Chester how this farm loan act fits in with provincial farm loan acts which some provinces have, and whether the elimination of some of the clauses in this bill is owing to the fact that you feel that second mortgages—with the ceiling raised to \$15,000—that some of these farmers will not need second mortgages?—A. In answer to your last question, the bill provides for the elimination of second mortgages.

Q. I know that. That is why I asked if you feel that on account of raising the loans up to \$15,000 it is not necessary for a farmer to ask for a second mortgage.—A. The second mortgage that we administer has been a short term loan, a five-year loan. They have been at higher interest rates and it was mandatory to take as collateral a chattel mortgage with them. For these reasons they have been very objectionable. The farmers and borrowers have found many faults with them and objected to them many times. As far as our board is concerned we have to keep a separate set of accounts governing first mortgage loans and second mortgage loans. This was very cumbersome, and costly too. We feel that the borrower is going to benefit from the opportunity of having his loan placed on a first mortgage instead of making a division as between first and second and chattel. Does that answer your question?

Mr. QUELCH: What about Quebec?

By Mr. Fraser (Peterborough):

Q. With respect to that, do you have any regulations which prohibit a farmer from taking a second mortgage if he can get it some place else?—A. Once he has his loan we have no prohibition, no control. From there on he can do as he pleases. If he can get a second mortgage or borrow on a chattel mortgage, or anything of that kind, it is up to him.

Q. He is welcome to do so?—A. Oh yes, once we have made our loan.

Q. How does the federal farm loan act fit in with the provincial loans?—A. The difference as between the Ontario Junior Farm Loan Board?

Q. Yes.—A. It has a different set-up again. You know our set-up, and there is no use in my going into it again.

Q. No.—A. The Ontario set-up is what they call the "Ontario Junior Farm Establishment Loan Corporation". They can only make loans to young farmers under the age of 35. I am not sure if it is up to 35 years or you have to be under 35, but, in any event, 35 is the limit. They must have three years residence in the province, with three years farming experience, and must be able to become established as full time farmers.

Their loans are secured by first mortgage only. They loan up to 80 per cent of the appraised agricultural value, and \$15,000 is the loan limit. They have repayment terms of 25 years.

They have two rates of interest; loans up to 20 years are at 4 per cent; loans from 20 to 25 years are at 4½ per cent.

Q. You mean it is 5 per cent all the way through?—A. 5 per cent? They have two rates.

The CHAIRMAN: Is there anything further?

By Mr. Fraser (Peterborough):

Q. You said it was 4 per cent and 4½ per cent for Ontario?—A. 4 per cent if the loan is up to 20 years; and if the loan is for more than 20 years, it costs them 4½ per cent.

Q. Another question is this: With the rate at 5 per cent is there any possibility that that could be reduced and you could still carry on with farm loans?—A. Our rate, you mean, the 5 per cent rate?

Q. Yes. Could it be reduced to $4\frac{1}{2}$ per cent?—A. In setting the interest rate I think there are many considerations which have to be gone into. I do not think you want to have a fluctuating rate. I think you want to look forward, if you are going to reduce the interest rate—you want to look forward to a period in which you can maintain that reduced interest rate. If you take a look at your investment at the time you consider the problem as to whether the interest rate should be lower or higher, you will find that one half of one per cent either way represents on our investment well over \$200,000, and it is conceivable that you can lower the interest rates before you have that amount of money in service; but I think it is also necessary that you come reasonably close to having that amount of money available for the purpose. We have not got that amount of money available.

Q. That is why you set it at 5 per cent?—A. The reason we increased our rate to 5 per cent in 1952, I think it was?

Q. Yes.—A. The reason was that we had been paying 3 per cent interest on borrowed funds, and then it went up to $3\frac{3}{4}$ per cent. This increased interest charge increased our costs by three-quarters of one per cent. But we only increased the cost to our borrowers by one-half of one per cent, so we absorbed the other one quarter of one per cent additional cost within the board.

Q. You feel you have to work on a margin of one and one-half per cent?—A. That has been the historic margin of the board and I think it has been pretty well the historic margin in most lending institutions.

Q. You went from 1929 to 1954, under that one and one half per cent?—A. It has been just exactly that; when we were lending at $6\frac{1}{2}$ per cent, our money cost us 5 per cent; and when we were lending at 5 per cent our money cost us $3\frac{1}{2}$ per cent; and when we were lending money at $4\frac{1}{2}$ per cent our money cost us 3 per cent. Until 1952 we always had a $1\frac{1}{2}$ per cent margin; in 1952 we absorbed one-quarter of one per cent of the cost, and our margin was reduced to $1\frac{1}{4}$ per cent. There has since been that fluctuation in the cost of our money from three and three-quarters per cent down to three and one-eighth per cent, and it is now up to three and a quarter per cent, and we anticipate a further increase.

Q. Despite the fact that you just got a one and one half per cent lee-way, you have had a surplus practically every year.—A. The amount we put towards surplus or reserves in the last four years—the last three or four years—has been considerably less than one half of one per cent which we normally, as a practice, had put away towards reserve funds.

Q. Thank you.

The CHAIRMAN: Now, Mr. Johnston.

By Mr. Johnston (Bow River):

Q. My question is a short one. I started to ask this question just before we rose at noon. What I wanted to ask the witness was a question in regard to the appraisers. You will note that Mr. Bennett was speaking about the appraisers that they used in the V.L.A. He stated that they have a refresher course every year so as to keep their appraisers more up to date. I wondered if the appraisers in the Canadian Farm Loan Board are given a refresher course, and, if so, when was the latest one was held.—A. The latest one was held in Woodstock last week.

Q. Are they called in from all over Canada?—A. It is done by provinces; each provincial office administers the loans within that province, and these refreshers are generally in that province.

Q. You have a special refresher course for these appraisers?—A. That is what I said.

Q. Is there one given in each of the western provinces?—A. There is one in Saskatchewan, either this week or the coming week, I am not sure which. In Manitoba, I believe they have had their appraisers in; I am certain about that. But let us put it this way: our appraiser season will open—depending on the weather—in western Canada about the middle of April or the first of May. And before the appraisal season begins there will be a meeting within each province of the appraisers with the branch office officials.

Q. Would the witness tell us briefly what type of course is given to these appraisers?—A. Well—

Q. What is the type of work that you outline for them, and what is the course of study and so on?—A. You know, appraisal work is not an exact science. A great amount of judgment and a great deal of common sense goes into an appraiser's work. Without that he is not going to make a good appraiser at any time, no matter what instruction you may give him now.

The CHAIRMAN: In other words it is an "informed guess"?

The WITNESS: You are coming pretty close to it. It is a matter of opinion. One person's opinion about the value of a farm will vary with that of another, even as between a husband and wife, or son.

By Mr. Johnston (Bow River):

Q. He does not attempt to enter into that does he?—A. The instructions given to our appraisers are based on the experience of our branch managers and reviewing officers, the branch office employees of the board who are responsible for our loans. They have accumulated a tremendous amount of experience over a number of years. There is no set school or agenda, if you want to call it that. It is not a school in the sense that you have certain questions to answer and you have to write an examination. It is a refresher in work that has been done during the past year, and certain individual cases are brought out and discussed, and when it is all over they have all refreshed their minds on the type of work they should be doing.

Q. It is a good-time meeting to discuss their problems?—A. I would not say it was any more a good-time meeting than this one.

The CHAIRMAN: There is one thing I expected you to bring up, namely, the discussion we had before we actually started the questioning of this witness. There is no doubt that it will not add anything to posterity, and I was wondering if we might instruct the reporter to start his transcription of our proceedings with the questioning of the witness.

Mr. JOHNSON (Kindersley): Mr. Chairman, I think it is a necessary part of the meeting in making our decision.

The CHAIRMAN: The committee has power to strike it out if it so wishes.

Mr. FRASER (*Peterborough*): I do not think we should strike it out. It is part of the evidence and we should leave it in, just as you would in court.

The CHAIRMAN: I am confident that posterity will get no benefit from it.

Mr. CAMERON (*Nanaimo*): On that basis there would be very few reports from parliament.

The CHAIRMAN: Now, Mr. Gour.

By Mr. Gour (Russell):

Q. Can you let us have the losses by provinces?—A. I do not appear to have that information with me but I can secure it for you.

Q. Thank you. I think we should have it.—A. Do you wish to have it this afternoon?

Q. Oh, later on will do.—A. We will bring it to the committee.

Q. Very well. Now, I think most of you are familiar with this subject. I am talking about appraisers. I have nothing to say against your appraisers. Some of them are very nice people but I must say that some of the employees of your board set the amount too low for the real value. I would say that happens in 75 per cent of the cases you have to deal with.

I think I know, just as well as any man could know, the value of a farm. But the trouble is this; they will say that a building occupied by a firm of undertakers with a good house is worth \$10,000; but if you put that same house in a small village they will say it is worth only \$7,000; and if you should put it in Ottawa, near my riding, they will say it is worth \$10,000 and they will lend \$10,000 on that house. Therefore I understand you have to work on the revenue of the farm. Is that correct?—A. That is right.

Q. But after all, you have to consider whether the farm could be sold later, when some other farmer will get twice as much for it. I know that you have to depend on the person who seeks to borrow the money. I also know that sometimes a good farmer will never make a dollar; he may owe everybody; he may be a no-good, and lazy, and so on.

From my own experience I have found that your appraisers about 75 per cent of the time will appraise the farm at a figure at least 25 per cent less than it should be. You are setting the ceiling now at 65 per cent, but I would like to see it go to 75 per cent, and I would like to see us lend up to 80 per cent, because you are lending to city people at over 80 per cent on their houses. I hope you will raise the ceiling again, because we ought to keep our farms. You say that you are just practically close, but I would like to see in what part of the country your losses are suffered. That is all.—A. Probably I should say this: that with regard to the buildings and the evaluating of buildings for loan purposes—the board is not allowed to value buildings at a greater amount in total than the value of the farm—the land. Is that clear?

Mr. GOUR (*Russell*): Yes. I am not speaking of the price of buildings, but, where there is a good building on a farm, they will insure it by fire insurance, and on a good farm there will always be somebody working it.

The WITNESS: Probably I should also say the difference between lending money in an urban centre and on a farm is that on a farm we must look for repayment of our loan from the farm and the products of the farm. It is entirely different from where a person is working for wages.

By Mr. Carrick:

Q. I wish to ask a question or two about the appraisers. We hear from time to time about the difficulty in getting good people for that job in the civil service on account of competition in industry and other occupations. Do you suffer in that way at all in connection with your appraisers?—A. I will say we have not suffered in the quality of the appraisers we have been able to engage. I would say also that it is not easy to get good appraisers. As you suggest we are in competition with everybody who engages appraisers for farm purposes, and they are not a dime a dozen on the market. We have experienced some considerable difficulty in certain areas in getting men whom we think would do the work satisfactorily. We try to gauge the salary we pay them to the salaries paid by other people who are hiring similar types of men. There no doubt about it that there is considerable competition, because there are not too many available, especially with experience. I would say that, in the case of 90 per cent of the men we employ, we really have to train them before they become first class appraisers. This is quite a problem; there is no question about that.

Q. Apart from paying higher salaries, is there anything which can be done to get a better type of appraiser?—A. We have tried. I am wondering if you have any suggestion.

Q. No; I was just wondering.—A. We have done everything we can to get the right type of appraiser. That is one thing we do; we try very earnestly. As I remarked this morning, if the appraiser is not right, we are not right all down the line, so we have to get a good type of man for that job.

Q. You have mentioned a committee considering the applications for loans. I am not quite clear on that. Would you mind explaining what that committee does, and what stress they place upon the evaluation of the appraiser?—A. The committee is within the branch office, and then, of course the loan application is dealt with again at head office, before the loan is approved. Each branch manager, as I said before, has been there for quite a number of years and has a lot of experience. He knows approximate values in various areas and also knows the individual appraisers. Some of our appraisers are inclined to be low and others are inclined to be high; some stress one thing and some stress another thing. All those things are considered at the time they are reviewed at the branch office with the benefit of the knowledge that the branch manager and the members of his staff have of the individual appraisers in their employment, by experience.

Q. So more information is brought to bear in determining the appraised value of the land than just the appraisal report brought in by the appraiser himself?—A. Oh, yes.

The CHAIRMAN: I believe Mr. Cameron is next.

Mr. JOHNSON (*Kindersley*): I thought Mr. Argue was next on the list.

The CHAIRMAN: He has already been by-passed.

Mr. JOHNSON (*Kindersley*): I will take his place.

The CHAIRMAN: I think not. If you wish to be on the list I will put you on.

Mr. JOHNSON (*Kindersley*): Am I not on it now? Where do I fit in?

The CHAIRMAN: Right at the end.

By Mr. Cameron (Nanaimo):

Q. Could Mr. Chester tell us on what basis the board sets its rate of putting aside reserves for losses? Is it on the basis of past experience of losses or is there an arbitrary percentage?—A. We started with no reserve, of course, in 1929, and what we have now has been built up in 25 years. The broad principle in effect up until about two or three years ago was that we would put about one half of one per cent of our investment into reserve. We have not been able to do so for some time, and are not able to do that now. Last year, if my memory serves me correctly, it was \$50,097 we put into the reserve. One half of one per cent of our investment is well over \$200,000 which we are nowhere close to now.

Q. What about your rate of loss experience?—A. We have lost in the neighbourhood of $\frac{3}{4}$ of a million dollars.

Q. I know you have a figure for the loss and total loan, but I do not know whether you can take that as your basis for the rate of loss. I suppose you could over the period of the life of the board. There has been a ratio of three-quarters of one per cent.

The CHAIRMAN: It would be less than one per cent—about three-quarters of one per cent.

Mr. CAMERON (*Nanaimo*): Yes.

The WITNESS: Very close to it.

By Mr. Cameron (Nanaimo):

Q. Well, I wonder Mr. Chester, in connection with that amount which you put aside for reserves for losses, you have on the top of page 2 in your statement that the interest rates have always been predicated on a competitive and self sustaining operation without the benefit of government subsidies. Now, has that affected the rate of interest that you have charged? Are those considerations; or have they been affected purely by your loss rates and the cost of funds?—A. I would say that the cost of funds is the biggest factor, and I would say that any prudent loaning organization should have a reserve. Now, it is a matter of opinion as to how much that reserve should be.

Mr. CAMERON (Nanaimo): Thank you. That is all I have.

The CHAIRMAN: Mr. Argue, you had some questions?

Mr. ARGUE: I will ask them at another time. I relinquish my place to Mr. Johnson.

The CHAIRMAN: He is well down on the list. Mr. Pallett.

By Mr. Pallett:

Q. I have a series of questions. First of all, could we be told how many applications were processed by the board, and how many of the applications received resulted in loans being granted?—A. For when and where?

Q. For the last year?—A. 1955, and for where?

Q. For everywhere?—A. For Canada?

Q. Yes.

The CHAIRMAN: The number of applications and the number of granted?

By Mr. Pallett:

Q. Yes—A. During our fiscal year ending March 31, 1955, we received 4,193 applications and we made 2,145 loans. Is that the information you wish?

Q. Yes.

Mr. ARGUE: What is an application? At what point do you count it an application?

Mr. PALLETT: Would you wait until I am finished? I think I can carry on with this all right.

By Mr. Pallett:

Q. What is the explanation for the small percentage of loans granted? In each application, I gather you took a \$10 valuation fee, and some 2,700 loans were rejected. Does not that seem to be a pretty high percentage of rejections? I understand that is a complete rejection?—A. Well, of course, they are rejected in this sense, that we do not proceed with their application. Many of those are not even eligible. Many people do not even own their farms to begin with and have no intention of buying them. Many of them cannot provide a mortgage. There are many, many reasons why these applications should never have come to us in the first place.

Q. They would be filed at your own office with your own representatives?—A. Yes.

Q. And before they would be considered, an application would be completed in your office?—A. No, no. You mean in a personal interview?

Q. Or some forms completed.—A. When a person wants a loan through us they write our office and we send an application form. It is returned to us sometimes with the \$10 fee, and sometimes without it. If it is an application, it has the \$10 fee; it is not considered if it does not. Amongst

those are this large group—I do not have the breakdown—who are not even eligible for a loan under the act. We do not consider we can vary that result too greatly.

Q. So that we might get the record straight, you said there were 4,193 applications and 2,145 loans granted?—A. Yes.

Q. So that it is less than 50 per cent that were granted?—A. Yes. Probably it might be well to give you the trend of that. Would you like that over the years?

Q. Yes.—A. This is loan applications received and loans approved. From 1929 to 1952, 39.4 per cent of our applications turned into loans; from 1952 to 1955, 42½ per cent of our applications turned into loans; in the year 1955, 43.8 per cent of our applications turned into loans.

Q. Do I understand the \$10 was taken on all these applications which never resulted in a loan?—A. Only if an appraisal was made.

Q. I thought you said it was not considered an application unless the \$10 accompanied it?—A. If he made out a formal application form with the \$10, it is an application. And if we do not make an appraisal we return the \$10. If we do make an appraisal, whether a loan is made or not, we retain the \$10. Probably at the same time I might give you an idea of the trend in the size of loans. This is by five-year periods: 1930, \$2,200; 1935, \$1,700; 1940, \$1,800; 1945, \$2,300; 1950, \$2,600; 1955, \$3,800. Those are only averages and do not mean very much, but they show a trend, that is all.

Q. I have some further questions. You mentioned, in explaining the basis for your loans, the repayment possibility of the farm. What factors do you use in determining that? Do you take the income earned off that farm for the previous year, the current year, or on what basis is it taken?—A. We have crop records for the area and we can anticipate what should be taken off by an average operator.

Q. It is based on an average of the area as much as on that individual farm?—A. No. The average of the area, of course, has some importance; but the individual farm is what we are loaning on in the area.

Q. There is one further question. Supposing income tax had not been paid by the board over the years, have you any figures to show what you would have in reserve at the present time?—A. We would have the amount of income tax we have paid. It is fairly substantial.

Q. Would you make that figure available to the committee?—A. Yes. We have paid \$214,142 corporation income tax up until March 31, 1955.

Q. Over what period?—A. 1952, I believe, when we started; about 3 years.

Q. Are you able to give us a rough breakdown of the type of farms which represent the majority on which loans are given—mixed farming, grain farms or what?—A. That depends on the area.

Q. There is no preponderance of any one type of farm obtaining loans?—A. In Saskatchewan, yes, grain farms; in Ontario, yes, mixed farms or dairy farms. It depends on the locality entirely. I do not think we have invested any overwhelming amount in any one type of farming; I am sure we have not—it is well spread around.

Q. Do you have any table which indicates today what the average investment is to start an average farm? Is the board aware of that? Has the board any figures to show what it would cost a person to set up the average farm today?—A. I have heard a lot of figures and I would think you could get as many estimates as there are people who give them. I think the only guide I would have to that is what is the average value of farms in the province.

The CHAIRMAN: That figure is very meaningless.

Mr. PALLETT: It is quite meaningful.

By Mr. Pallett:

Q. For example, on what do you base your figure of \$15,000 maximum as being enough?—A. Are you particularly interested in Ontario?

Q. Take Ontario.—A. The average value of farms and buildings in Ontario—and this comes from the Dominion Bureau of Statistics, and as I understand it those figures are voluntary figures given by owners of farms, somebody might correct me if I am wrong there—the average value of a farm in Ontario, including land and buildings, is \$9,467.

Mr. BLACKMORE: Excluding machinery?

The WITNESS: The farm.

Mr. PALLETT: That is real estate?

The WITNESS: Yes.

Mr. ARGUE: Would you give me some averages for other provinces—Saskatchewan?

The WITNESS: \$10,560.

Mr. ARGUE: About the same size as Ontario?

The WITNESS: Very close.

By Mr. Pallett:

Q. Do your figures go further and say what size is the average farm in Ontario in your figure of \$9,000 which you are suggesting?—A. The average farm acreage in Ontario—these are 1951 figures; there has not been a census since then—139.2 acres.

Q. 139.2 acres is the average farm valued at \$9,000?—A. \$9,467. Those are Dominion Bureau of Statistics figures.

Q. This is 1956. How much have your appraisers shown that land is increasing, and the value of farms is increasing since 1951 in Ontario?—A. I would say that many appraisals that have come across my desk would indicate to me that the increased appraisal value of a great number of farms—I am not going to say all farms, but by far the large proportion—would run about 50 per cent in the last several years.

By Mr. Carrick:

Q. Would those D.B.S. figures be market value?—A. They are not a great deal of use. They are certainly market value, given by the person who owns the farm; the figure at which he can sell it. I would say they are high figures for the average for loaning purposes.

Q. They are not comparable to the prices at which you would value them?—A. No.

By Mr. Pallett:

Q. You would say, roughly, for loaning purposes, the average farm in Ontario today is worth about \$13,500? I am adding 50 per cent to your figure.—A. No. I said we have increased our appraised value by 50 per cent.

Mr. CAMERON (Nanaimo): It comes to the same thing.

The WITNESS: No. We do not use the \$9,400.

By Mr. Pallett:

Q. What do your figures from your own board then show that the average farm is valued at on the loans you have processed in the last year—take your own figures. Your application shows the values of the farms at which the farmers have valued them?—A. I think that when you get into averages you are getting into dangerous ground. If I quote averages to you it does not

mean very much. We want to take individual farms. We will discuss any individual farm, or combinations of farms, but I think it is very dangerous for us to start talking about averages, for loaning purposes.

The CHAIRMAN: I think you have established your point, Mr. Pallett.

By Mr. Pallett:

Q. Are there some farms in Ontario that are valued considerably in excess of \$25,000?—A. Let us put it this way: per acre we have some very high priced land in Ontario.

Q. Based on production?—A. All our values have to be based on production, yes.

Q. Am I correct in saying actually the \$15,000 today in many instances would not represent 65 per cent of the lending value or the borrowing value of many farms in Ontario?—A. That might be; I would not like to say it would be a large proportion of the farms in Ontario.

Q. But a substantial proportion?—A. In a certain limited area.

Q. So that the effect of this \$15,000 limitation would preclude a substantial number from borrowing 65 per cent of the value of the farm?—A. I would not think so. When you get to 65 per cent and \$15,000, you are getting pretty close to a \$24,000 farm that we can loan on; that takes in a lot of farms in Ontario, as well as any place else.

Mr. ARGUE: Probably 98 per cent.

By Mr. Fraser (St. John's East):

Q. Could I refer to page 1 of your statement. I see there in the first paragraph, in the last sentence, "The Canadian Farm Loan Board maintains a branch office responsible for the processing of all loans in each province excepting Newfoundland." I would like to ask Mr. Chester where an applicant from Newfoundland would apply? Would it be to Ottawa?—A. Yes.

Q. Have many applications been received from Newfoundland for loans; have there been any at all?—A. Yes. We have received very, very few in number, and we have approved one loan.

Q. I notice in the report that no loans were approved for 1955?—A. That is right. We have only had one loan approved since Confederation.

By Mr. Fahey:

Q. I wish to follow along on Mr. Johnson's remark about the training of appraisers. It seems to me the key to the whole question in any company in the matter has been the skill of the appraiser or assessor. Would you agree it would be of value to have a proper syllabus of training drawn up for the appraisers as they do for the work under the Veterans Land Act. We found, on the municipal and provincial level, in order to achieve an evenness of appraisal, it has been necessary to get them together and train them in appraisal technique. Would that not be something for your board to consider?—A. Yes. It might be a very good suggestion. As a matter of fact it is a problem which I have been wrestling with for some months.

The CHAIRMAN: Now, Mr. Charlton.

By Mr. Charlton:

Q. Mr. Chester, I take it that many of your appraisers are part-time men, is that not true?—A. What part of the country are you speaking about?

Q. Any part; your appraisers are not all full-time employees?—A. No. Are you referring to Ontario?

Q. Many of your appraisers are part-time employees?—A. Some are, yes.

Q. Many of your appraisers are included among the 123 permanent employees?—A. Permanent appraisers are, but not the part-time appraisers?

Q. That is what I am trying to get at. You said you had 123 employees as of now?—A. Yes.

Q. How many full-time appraisers do you employ? I mean how many do you employ full-time? A. We have 19 full-time appraisers, and 2 seasonal appraisers who work from the opening of the season to the end of the season; then we have 36 part-time men, making a total of 57.

Q. I take it that your 19 full-time appraisers would be only road inspectors going around with the part-time appraisers in their duties?—A. This varies from province to province depending on the volume of business that is available to us. In a province where we have a fairly substantial amount of business we have districts, and these full-time men are district appraisers. They take care of the area, while the part-time men—or some of them—will work in that area; but with the full-time men employed, their responsibility is for that division of the province.

Q. In other words he has to check every appraisal made by the part-time men?—A. No, no. That would be impossible! But he goes with, he accompanies, the part-time man, probably for seven or eight appraisals, and then he will leave him on his own for a while, and then come back with him and give him further instruction.

By Mr. Johnston (Bow River):

Q. That is not given in a course?—A. No, not a course, but we have a refresher for the full-time men. We have complete control of the part-time men's work.

Q. I thought that you said that you called all the appraisers in from a certain locality.—A. Yes, that is right.

Q. Not just the leaders?—A. We call the permanent men of the board in, and we often call an individual part-time man in and give him individual instruction.

Q. You do not have any definite course, such as Mr. Fairey pointed out that he thought you probably should have?—A. They have a definite course within the branch office and it is organized with a printed syllabus which is made up there.

Q. Do you happen to have one?—A. If you call any instruction which is on an agenda a syllabus, it is done within the branch, individually within the provinces. They know the conditions within that province and they are responsible for the loans that are made there, and for everything that the appraiser does.

The CHAIRMAN: It is really Mr. Charlton who is having his day in court.

By Mr. Charlton:

Q. Thank you, Mr. Chairman. I take it that the 19 full-time appraisers have been reduced considerably over the past few years. You say that you had 178 employees in 1940. Are these employees now reduced from 178 to 123—are they full-time appraisers, office staff, or what?—A. Most of the reduction has been in office staff. This is pretty close to the average for the past several years of the number of full-time appraisers we have in our employ.

Q. I am trying to get at the reason for the delay in the processing of these loans from the application stage to the appraisal stage, and to when the money is actually received.—A. Well, all I can say about that is that it is a problem of administration that is facing us every day in the year, and we are trying to do the best we can with it. Sometimes we are a little disappointed,

and we have to make certain corrections, as you can understand, in our administration. But you must also bear this in mind: that every loan which we make goes through several hands from the time the appraiser makes his appraisal until the loan is approved. That is our responsibility and that is what we are looking at all the time, and we try to keep that time to a minimum so far as possible.

But from there on, you have to deal with the borrower, with the insurance agent, with his creditors, with his lawyer who is disbursing the loan, with the municipality in regard to taxes; you have to deal with the title and the registry, and there are many and various people who come into it over whom we have no control.

We get the blame, I am sure, for a good deal of delay after the loan is approved, with which we have nothing to do, and the blame is not ours whatsoever. We have to have co-operation between all these people, otherwise there will be delays, and when we see an individual case being delayed we try to get on to it and help it along as much as we can. But we do have to have the co-operation of many people outside of our board after the loan has been approved in order to expedite the disbursement of the loan, and that is where you get delays.

Q. You do not have your own lawyers processing mortgages or searching titles? You depend on part-time employees for that?—A. We have a lawyer in our department in the Toronto branch office, and we have one in Quebec; other than that it is done by agents.

Q. You are actually, in effect, a profit organization?—A. A profit organization.

Q. Yes, a profit organization!—A. If, having had a surplus, after being in operation is a profit, then we are a profit-making organization, but that is not fundamental to what we are out to do.

Q. I did not have that idea of the Farm Loan Board, and I was rather surprised that you are actually paying as much as you are in the way of income tax, because, after all, I thought this was intended to help the farmers, not intended to make money. You say that 75 per cent of your cost is in salaries or wages?—A. That is right.

Q. You have proven by your report that you are processing more loans now with 55 less employees than you did back in 1940?—A. Yes.

Q. So your costs are going down per loan, as they should be?—A. If wages had not gone up, I would agree with you; but you have a factor in there of advancing wages.

Q. But the number of loans is increasing too?—A. That is right.

Q. And that should take up your increases in wages. And when there are very many less employees you are showing a margin of 1.39 per cent, and you are charging the country $3\frac{1}{4}$ per cent, making a total of 4.64 per cent, and you are charging 5 per cent. Your loans do not anyways nearly take up that difference, and naturally so, or you would not be making a profit. You gave us some D.B.S. figures on the average price of farms, and your figure was \$67 per acre. Do you use that figure in valuating farms at all?—A. In no way whatsoever.

Q. Do your appraisers use the assessed value for municipal taxes?—A. In no way whatsoever!

Q. They are instructed not to?—A. They do not need such instructions; they just did not do it. They would not be with us long if they did.

Q. I do not have this as first hand information, but I am told that many, many applicants have been refused when the valuation was above the assessed value of the farm.—A. All I can say to you is that I doubt if that is possible.

Q. Anyone who has ever come to me has had as his main complaint that the appraisers have taken too much of his valuation from the assessed value of his property.—A. He has been reading the newspapers, I am afraid.

Q. These people, in odd cases, have had trouble in trying to get loans and that was the reason for it.—A. You will find many people can give many reasons why they did not get a loan.

Q. That is very true. I have found that out in my own experience; but at the same time I do not know of the odd case where it has been correct.—A. As far as this is concerned, it is impossible for it to be correct.

Q. There is no assessed value which is considered whatever?—A. On any property which our appraisers value, the assessed value has no value whatsoever to us.

Mr. ARGUE: Would you please give us your formula for arriving at the assessed value?

The CHAIRMAN: Please let each member have his day in court.

By Mr. Charlton:

Q. It is just based on the earning power of the farm?—A. That is right, on the productive capacity of the farm.

Q. As I understand it, the buildings cannot be valued at more than the land?—A. That is right.

Q. No matter how good the house or buildings are, that is not taken into consideration unless the land is of a similar value.—A. Well, let us put it this way; we value the land this way; add to that the value of the buildings and in the net result, our final valuation must still be the productive value of that farm.

Suppose you put a brick factory worth \$100,000 on that farm, that is not going to increase the productive value of the farm whatsoever. I could put it another way: a man may have an acre or two of land, may be classified as a farmer because he has an acre of green-houses, but he would not get a loan on the basis of the value of his green-houses.

Q. Yes, and, by the same token, if a man had ten acres he could be producing hogs with practically no land at all. But you would say there was no capacity to that farm?—A. I think that would be bordering on a business, would it not?

Q. It is still a farm. He may be buying a lot of his feed, but he still has earning capacity.—A. It is the earning capacity of the land for agricultural purposes.

The CHAIRMAN: You would not grant a loan for a couple of acres of rock where they happened to have a chicken farm?

The WITNESS: No.

By Mr. Charlton:

Q. You do not take that into consideration at all—A. What?

Q. If he had a wonderful barn, and let us say he is producing 1,000 hogs.—A. All that is taken into consideration; if he has a barn valued at \$25,000, and the farm is valued at \$5,000, we would not value the farm at \$30,000. Another farmer may have the same operation and is able to achieve the same result with a \$4,000 barn.

Q. Maybe the \$4,000 barn would not hold 200 hogs.—A. I think probably it might.

Q. Very well.

By Mr. Richardson:

Q. My question has been anticipated already, but it does seem to me that one of the very important things is the appraisal. Might I ask Mr. Chester if there is any syllabus or manual of instruction whereby there are certain principles recognized as standard and uniform throughout the country, and others in which an area of discretion may be available for the appraisers?—A. We have instructions to appraisers laid down. It is a volume of this size indicating type closely, and it goes into detail with respect to the types of land, the types of soil, undulating, rolling, stoney, etc., as far as the actual soil is concerned; and it goes into the value of buildings, and it goes into the value of crop averages, and P.F.A.A. assistance in the west, and into the records of the area; all those things are considered. I think it is far more important that an appraiser use his head than go too much by the book, because he can get into an awful lot of trouble.

By Mr. Johnston (Kindersley):

Q. Mr. Chester, does the board cover its operational and administrative expenses from the percentage difference between the cost of the funds and the interest rate which is charged to the borrower?—A. That is right.

Q. By that token, there would be constant pressure imposed to keep your administrative costs at a minimum, and in addition to that to induce you to make a loan where there is a marginal risk?—A. I do not know what you mean by "constant pressure"; there is no pressure placed upon me.

Q. If you only have one and one-half per cent to operate on, you cannot take much in the way of marginal risks and keep on making your one and one-half per cent?—A. I do not know that we are called upon to take undue risks, where it is almost a forgone conclusion that we will lose money before we take them. I do not think that is the work of any person who is trying to administer this board.

Q. I would compare that with the Farmers Home Administration in the United States where the funds for it come from a direct contribution from the government, and therefore are not hinged on a limitation of a one and one-half per cent interest rate, and where they use the principle that they want to establish the farmer as an economic unit, and where there appears to be stress on the independence of the farmer and his chance of success. Is that not a conclusion?—A. Are you making a statement or asking me a question? I cannot tell you because I do not know how the federal F.H.A. operates.

Q. You mean the Farmers Home Administration?—A. The Farmers Home Administration; I cannot tell you how they operate.

Q. I think it is surprising that the chairman of a board operating in Canada has by its own admission said that he knows nothing about the Farmers Home Administration in the United States.

The CHAIRMAN: That is an unfair statement. It puts me in exactly the same category.

By Mr. Johnson (Kindersley):

Q. If there is objection raised by members of the government to my statement—

MR. RICHARDSON: Not by members of the government, but by members of this committee. I object to it as well.

MR. JOHNSON (*Kindersley*): I submit that we should be in a position to compare this with other systems in operation in other areas if we are to make this a proper credit administration.

The CHAIRMAN: I point out that the terms of reference to this committee are to consider the amendments before it and not to make recommendations concerning new types of legislation. The proper place to bring that up is in the House of Commons.

By Mr. Johnson (Kindersley):

Q. It has already been brought out in the House of Commons that the Farmers Home Administration makes its loans on a basis of 100 per cent of the appraised value, while ours is to be 65 per cent.—A. I think I should interject that I told you this morning the only comparable government sponsored organization in the United States that we may be compared with is the Federal Land Banks, and I gave you information in regard to them.

Q. The Royal Commission on Agriculture and Rural Life in Saskatchewan put this on the agenda of their report on agricultural credit, and I would recommend to the chairman of the board that he read it because it certainly ties in with the Farmers Home Administration very closely and with that of the Canadian Farm Loan Board.

But I am concerned with the fact that we have to operate within 1½ per cent margin which means that you have a maximum of efficiency within the operation of the board, but you will have the minimum number of appraisers, and that perhaps results in what Mr. Charlton has said, that there would be delay in making appraisals after the application has been made; and realizing how farms come up for re-sale, there cannot be too much drag between the time the supply of farm credit comes into operation and until they take hold, because the farm will in many instances be bought by someone else. I think the board would approve it if they operated on a different basis so they would not be tied down to 1½ per cent and could have a larger staff of appraisers in order to do the job efficiently.

The CHAIRMAN: You are discussing an entirely new form of legislation—you are suggesting that we should have a different form of legislation. Surely it is not relevant to this committee, to bring in a recommendation with reference to new legislation.

Mr. JOHNSON (*Kindersley*): We do not need to make it completely new.

The CHAIRMAN: You are arguing for an entirely new type of legislation, for subsidized loans, and I shall have to rule you out of order in discussing that type of thing, because we are not here to discuss something that you would prefer instead of this bill.

Mr. JOHNSON (*Kindersley*): If you have any modification to make now?

The CHAIRMAN: This is not a modification in the act.

Mr. JOHNSON (*Kindersley*): I will let that go for now, but this problem came up concerning the qualification of the appraisers, and it is an interesting one. On the basis of your farm experience, Mr. Chester, would you feel qualified to go out and appraise a farm and put a valuation on it?

The WITNESS: That is a hard question to answer. I suppose anybody could put a valuation on a farm, but whether it would be acceptable or not, I do not know.

Q. You would have to put it with reasonable accuracy. Do you think you could do that on the basis of your farm experience?—A. If I saw a valuation put on it by somebody else, I think I could come pretty close to saying whether it was a proper valuation or not.

Q. They have a responsibility to put a value on a farm without seeing someone else's figures. You say they pay no attention to the assessed value?

The CHAIRMAN: Obviously, how could they. Surely you know it has no relation to the actual value and that it varies in almost every municipality.

By Mr. Johnson (Kindersley):

Q. That is something we can argue at a later stage. I was coming to the statement that Mr. Chester made that appraising is not an exact science, and if appraising is not an exact science, how can someone put an appraisal on land in a western province and compare it with an appraisal in another province, and say whether it is burned out, or heavy clay, or light clay, without having technical knowledge of the soil of that area?—A. There are soil maps which are available.

Q. They cover a range anywhere from 4 to 5 sections.—A. The maps we see cover every section and quarter section, if you are referring to Saskatchewan.

Q. You base your assessment on the soil survey made by the university in the province of Saskatchewan there?—A. No; it is part of the factors that are considered, but only a part.

Q. What chart do your field men follow when assessing a quarter section in Saskatchewan?—A. What do you mean?

Q. They must have some pattern to go by, some standardized form to fill in on each quarter section that they are appraising.—A. I do not know what you are referring to. When a man appraises a farm, if it is a quarter section, he goes over it and takes a soil test in various parts of that quarter section, and he makes notes as he goes along, and makes a report later.

Q. How many test holes does he put down in a quarter section?—A. Oh, it would depend a great deal on the likelihood of a change in the soil conditions. He would probably put down many if there are changed conditions.

Q. How deep would those test holes go?—A. They are only for the top soil and subsoil; they would go down about a foot.

Q. In our area a lot of the factors which determine the productivity of the soil are much deeper than a foot; but coming back to that same problem; you have 123 on your staff, and one of the limitations might be that of the area which the appraisers have to cover. Could you provide us with information as to the area for which each appraiser is responsible and the name of the appraiser responsible for these territories?—A. It is Saskatchewan, I presume, that you are talking about?

Q. Yes.—A. We have five districts in Saskatchewan.

Q. What areas are they responsible for?—A. They follow the rivers; and they follow other things. I have not got the diagram here. There are two south of the Saskatchewan river and the Qu'Appelle river and there is one in the northwest of Saskatchewan, the eastern boundary of which is slightly west of Saskatoon; and there is a central area comprising northeastern Saskatchewan; and then there is a central area between there and the Qu'Appelle river.

Q. Who are these assessors and what are their qualifications?

The CHAIRMAN: Excuse me. I have a private bill which comes on at 5.00 o'clock in the house, and if you will excuse me I shall go now, but I will come back for the meeting of the steering committee. Will Mr. Valois, the vice-chairman, please take the chair while I am away?

Mr. FRASER (Peterborough): We are to carry on until 5.00 o'clock?

The CHAIRMAN: Yes.

Mr. MICHENER: Could we not adjourn at this time? We probably will not finish with this witness today, and some of the rest of us want to be in the House too.

The CHAIRMAN: The steering committee has a meeting at 5.00 o'clock.

Mr. MICHENER: They could come back here.

The CHAIRMAN: This meeting will be adjourning at 5.00 o'clock anyway.

(Mr. Valois took the Chair).

Mr. MICHENER: I move that we adjourn now!

Mr. JOHNSON (*Kindersley*): I have one little question. Can Mr. Chester provide us with a list of the names and qualifications of the appraisers in the three western provinces? That is all.

Mr. TUCKER: Mr. Chairman!

The ACTING CHAIRMAN: The chairman has been calling the names of members from a list, but I do not see any names on the list now.

Mr. ARGUE: We have a motion to adjourn.

Mr. TUCKER: I just wish to ask you a couple of questions and I would extend that courtesy to any other member of the Opposition.

Mr. ARGUE: The member for Rosthern is always complaining.

Mr. TUCKER: If ever there was a wailer in the House of Commons it is the hon. member for Assiniboia. Everybody will bear me out that there is no greater wailer and crier in the House of Commons than the member for Assiniboia.

Mr. ARGUE: The member for Rosthern knows the rules, and he knows that a motion to adjourn is not debatable. But instead of that he insists upon asking questions. Put the question, Mr. Chairman.

Mr. TUCKER: I said that I would extend the courtesy of asking a couple of questions to any member of the Opposition. The hon. member for Assiniboia has said there was no greater crier and whiner than myself in the House of Commons. That shows how vindictive a man he is. There was no reason for his making that statement.

The ACTING CHAIRMAN: Will you please allow me?

Mr. TUCKER: All I asked for was the indulgence of asking a couple of questions. But the CCF party objected to my asking those questions and insisted on an adjournment. If you want to put the motion to adjourn, that is all.

The ACTING CHAIRMAN: I am afraid that I am bound by the procedure that a motion to adjourn is not debatable.

Mr. MICHENER: I moved that motion to adjourn on the basis that we would not be finished with this witness today, but if Mr. Tucker thinks that he will be able to finish in a couple of minutes, then I withdraw my motion.

Mr. TUCKER: I would ask the indulgence of the committee to ask a couple of questions. The questions I wanted to ask were these: it may be that Mr. Chester has not got the answers here, but I think he will be able to get them. I wonder what the average appraised value was by provinces, during the year ending March 31, 1955, and the loans actually made during that period of the appraised value; the average appraised values by provinces, and then the average loans by provinces during that period; and then I wondered if this information had been given already; it may have been; but I wondered if Mr. Chester could give us the number of loans by provinces that were over \$9,500 during that year. Those are the questions I wanted to ask.

The WITNESS: The number of loans?

Mr. TUCKER: Over \$9,500 made during this period by provinces; and the reason for the question is this: the maximum now is \$10,000, and it is being increased, and I wondered in how many cases you were approaching the limit in each province.

The WITNESS: We will have to get that information for you.

The ACTING CHAIRMAN: I would like to ask the members of the committee if they feel that they want to have the discussion which just took place deleted from the record or left so that everybody will see it?

Mr. JOHNSTON (*Bow River*): No, not if you start to delete certain parts.

The ACTING CHAIRMAN: I agree with you in principle.

Mr. JOHNSTON (*Bow River*): I could not agree to it.

Mr. ARGUE: I am not saying that the record should be changed, but if I said anything offensive in respect to the member for Rosthern, I will be quite prepared to withdraw it.

The ACTING CHAIRMAN: I asked the question of the committee so that we might have your answer.

Mr. TUCKER: I was probably out of order because there was a motion to adjourn, and I was asking for a chance to put a couple of questions, and there was an argument whether that indulgence should be given to me. If it would save the reporter a whole lot of work, and I doubt if he got down everything that was said because there were two or three people talking at the same time; but as far as I am concerned, he does not need to include it.

Mr. JOHNSTON (*Bow River*): No, let us keep the record as it stands.

Mr. CHARLTON: There is no motion for adjournment now.

The ACTING CHAIRMAN: There was a motion, but it was withdrawn. The discussion which took place was out of order at the time because we had a motion for adjournment, but it was withdrawn later.

Mr. CHARLTON: The motion was never put.

Mr. JOHNSTON (*Bow River*): You never put it, Mr. Chairman. It was never accepted by the chair.

Mr. TUCKER: If you wish to argue a point of order, my understanding is that somebody said the question was not put. But when such a motion is made by a member of the committee it is not debatable. That is true. It is not important that the chairman can avoid the rule by refusing to put the motion. The moment that the motion is made, it is out of order and I just asked for indulgence to present a couple of questions. Then my honourable friend from Assiniboia made a few aspersions against me and I do not care whether it is on the record or not.

Mr. QUELCH: Even if it is out of order statements appear on the record as a rule.

Mr. CHARLTON: You will find a blank page in the report if you do not put everything in.

Mr. FRASER (*Peterborough*): I move we adjourn.

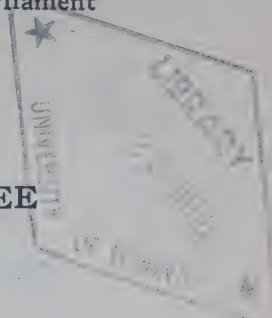
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HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956



STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

Bill 84

An Act to amend the Canadian Farm Loan Act

TUESDAY, APRIL 10, 1956

WEDNESDAY, APRIL 11, 1956

WITNESSES:

Mr. J. C. Brodrick, Chairman, National Policy Committee and Dr. E. C. Hope, Economist, both of the Canadian Federation of Agriculture.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

| | | |
|--------------------------------|-----------------------------------|-------------------------------|
| Argue | Fraser (<i>St. John's East</i>) | Monteith |
| Ashbourne | Fulton | Nickle |
| Balcom | Gour (<i>Russell</i>) | Pallett |
| Benidickson | Hanna | Philpott |
| Bennett (<i>Grey North</i>) | Hellyer | Power (<i>Quebec South</i>) |
| Blackmore | Henderson | Quelch |
| Bryson | Hollingworth | Richardson |
| Cameron (<i>Nanaimo</i>) | Huffman | Robichaud |
| Cannon | Johnson (<i>Kindersley</i>) | Rouleau |
| Carrick | Johnston (<i>Bow River</i>) | St. Laurent (<i>Temis-</i> |
| Charlton | Macdonnell (<i>Green-</i> | <i>couata</i>) |
| Crestohl | <i>wood</i>) | Thatcher |
| Eudes | MacEachen | Tucker |
| Fairey | Macnaughton | Valois |
| Fleming | Matheson | Viau |
| Follwell | Michener | Vincent |
| Fraser (<i>Peterborough</i>) | Mitchell (<i>London</i>) | Weaver |

Eric H. Jones,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS,

MONDAY, April 9, 1956.

Ordered,—That the name of Mr. Bryson be substituted for that of Mr. Stewart (*Winnipeg North*) on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

TUESDAY, April 10, 1956.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Argue, Balcom, Bryson, Carrick, Charlton, Crestohl, Fleming, Fraser (*Peterborough*), Fraser (*St. John's East*), Gour (*Russell*), Henderson, Hollingworth, Huffman, Hunter, Johnson (*Kindersley*), Johnston (*Bow River*), Macdonnell (*Greenwood*), MacEachen, Pallett, Power (*Quebec South*), Quelch, Robichaud, Valois and Weaver.

In attendance: Mr. J. C. Brodrick, Chairman, National Policy Committee, and Dr. E. C. Hope, Economist; both of Canadian Federation of Agriculture; and Messrs. F. L. Chester, Commissioner; E. O. Bertrand, Member; W. A. Reeve, Secretary; and R. McIntosh, Chief Accountant; all of the Canadian Farm Loan Board.

On motion of Mr. Fraser (*St. John's East*), seconded by Mr. Crestohl,

Resolved,—That Mr. Johnson (*Kindersley*) be substituted for Mr. Stewart (*Winnipeg North*) on the Sub-committee on Agenda and Procedure.

The Committee proceeded with its consideration of Bill 84, An Act to amend the Canadian Farm Loan Act.

The Chairman presented the First Report of the Sub-committee on Agenda and Procedure, as follows:

Your Sub-committee met at 5.00 o'clock p.m. on March 27, 1956, and agreed to recommend:

That the Committee meet at 11.00 o'clock a.m. and 3.30 o'clock p.m. on Tuesday, April 10th, and that at those meetings there be heard representative organizations interested in the amendments to the Canadian Farm Loan Act by Bill 84.

Your Sub-committee also met at 10.00 o'clock a.m. on April 10, 1956, and agreed to recommend:

That representatives of the Canadian Federation of Agriculture be heard by the Committee, and that the Committee receive briefs from the following organizations:

Interprovincial Farm Union Council, Eastern Irrigation District, Brooks, Alta., Lethbridge Central Feeders Association, Lethbridge, Alta., Alberta Sugar Beet Growers, Lethbridge, Alta., and

That Mr. G. Wyndlow, who has stated that he wishes to appear, be not heard by the Committee unless he is representing a representative farm organization, it not being the practice of the Committee to hear individuals, an individual having his remedy through his Member of Parliament.

Respectfully submitted.

The Chairman stated that, following the meeting of the Sub-committee on March 27th, a press release had been made to the effect that on April 10th the Committee would consider briefs from organizations interested in Bill 84,

which the Committee might deem to be representative farmers' organizations; and that this release had been given wide publicity. Briefs had been received from the organizations specified in the above report of the Sub-committee.

The First Report of the Sub-committee was adopted unanimously.

Mr. Brodrick was called; he read a brief from the Canadian Federation of Agriculture, was questioned thereon, and was retired.

It was moved by Mr. Macdonnell (*Greenwood*), seconded by Mr. Crestohl,

That Committee sittings be held in the mornings only, this day and subsequently, at the call of the Chair, until the Chairman again raises the question of afternoon sittings.

The motion was carried: Yeas, 10; Nays, 5.

At 1.05 o'clock p.m., the Committee adjourned to the call of the Chair.

WEDNESDAY, April 11, 1956.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Argue, Balcom, Benidickson, Bennett (*Grey North*), Bryson, Cameron (*Nanaimo*), Carrick, Charlton, Crestohl, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Gour (*Russell*), Hollingworth, Huffman, Hunter, Johnson (*Kindersley*), Johnston (*Bow River*), Michener, Pallett, Philpott, Power (*Quebec South*), Quelch, Robichaud, St. Laurent (*Temiscouata*), Tucker, Valois and Weaver.

In attendance: Dr. E. C. Hope, Economist, Canadian Federation of Agriculture; and Messrs. F. L. Chester, Commissioner; E. O. Bertrand, Member; W. A. Reeve, Secretary; and R. McIntosh, Chief Accountant; all of the Canadian Farm Loan Board.

The Committee continued its consideration of Bill 84, An Act to amend the Canadian Farm Loan Act.

Dr. Hope was called; he spoke on the administration of the Canadian Farm Loan Act and on long-term farm credit; and was questioned thereon.

At 1.08 o'clock p.m., the Committee adjourned until 11.00 o'clock on Thursday, April 12, 1956.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

APRIL 10, 1956,
11.00 a.m.

The CHAIRMAN: Gentlemen, there is a quorum here and I would suggest that we commence our business.

I believe Mr. Fraser has a motion to make.

Mr. FRASER (*St. John's East*): Yes, Mr. Chairman. I would like to move, seconded by Mr. Crestohl, that Mr. Johnson (*Kindersley*) be substituted for Mr. Stewart (*Winnipeg North*) on the sub-committee on agenda and procedure.

Motion agreed to.

The CHAIRMAN: I declare Mr. Johnson as elected.

Pursuant to the appointment of the subcommittee on agenda and procedure, your subcommittee met at 5 o'clock p.m. on March 27, 1956, and as its first report, agreed to recommend that the committee meet at 11 o'clock a.m. and 3.30 o'clock p.m. on Tuesday, April 10, and that at those meetings there be heard representative organizations interested in the amendments to the Canadian Farm Loan Act by Bill 84.

Pursuant to the recommendation of the steering committee that information was given to the Canadian press and was published fairly broadly throughout the country in the interested sections. I would ask for your approval of the action of the subcommittee in making that recommendation.

Agreed.

Your subcommittee also met at 10 o'clock this morning and agreed to recommend to this committee that representatives of the Canadian Federation of Agriculture be heard by the committee, and that the committee receive briefs from the following organizations: Interprovincial Farm Union Council; Eastern Irrigation District, Brooks, Alberta; Lethbridge Central Feeders Association Limited; and Alberta Sugar Beet Growers, Lethbridge, Alberta; and that Mr. G. Wyndlow, who has stated that he wishes to appear, be not heard by the committee unless he is representing a representative farm organization, it not being the practice of the committee to hear individuals, an individual having his remedy through his member of parliament.

May I ask for approval of the action of the subcommittee.

Agreed.

Mr. Brodrick, would you present your brief? Mr. Brodrick, Chairman of the National Policy Committee of the Canadian Federation of Agriculture, will present their brief to the committee. I would ask that he be allowed to present his brief *in toto*, and then those who wish to ask questions later will please give me their names.

Mr. J. C. Brodrick, Chairman, National Policy Committee, Canadian Federation of Agriculture, called.

The WITNESS: Mr. Chairman, may I first say a word in explanation. We just a short time ago received notice that we were to appear before this committee. The following is a statement on all farm credit in so far as the Canadian Federation of Agriculture is concerned. There has been a National Policy Committee of our federation, consisting of six individuals from all across

Canada, working on different problems and bringing out policy statements to be approved at the annual meetings of the Canadian Federation of Agriculture. This statement on farm credit received approval in January of this year at the annual meeting in Hamilton.

Now, I am only going to read certain sections of this report, roughly to the bottom of the first paragraph on page 9, and then there are recommendations dealing specifically with the Canadian Farm Loan Board. The statement of the Federation is as follows:

A credit policy for Canadian agriculture should be designed to meet the needs of three general classes of borrowers:

1. The established farmer, who carries on a reasonably efficient farm operation.
2. The farmer who would become efficient except for lack of capital.
3. The young man starting in to farm.

In addition, natural disasters may place farmers from any of these general categories in a position where they require special emergency credit to carry them over the period of heavy loss.

Developing a sound farm credit policy to meet these needs requires arriving at answers to two fundamental questions.

The first is—what is the probable future earning power of farm capital?

The second is—what are other special features of farming that affect the type of credit needed?

The third is—what trends are developing in the available sources of farm credit?

Earnings From Farm Capital Available for Loan Repayment

It is possible to make an estimate of the probable long time returns of the farm operator for the total of his own labour, that of his unpaid family help and for his management after allowing a modest interest return for the capital invested in his farm.

The following tabulation shows for the 29 years, 1926 to 1954, the average value of farm capital (real estate, livestock and machinery) per farm operator, the average net income per farm operator and the returns to the operator after allowing an interest return of 3½ per cent on his capital.

| | |
|---|----------------------|
| Avr. value capital per farm (1926-54)..... | \$8,630 ¹ |
| Avr. net income per farm operator (1926-54)..... | 1,269 ² |
| Less int. on avr. capital at 3½ per cent..... | 302 |
| Avr. return to operator, for his labour and management and wages of unpaid family help..... | 967 |
| Avr. annual wage for hired farm labour (1926-54).... (Employee boards himself) | 748 ³ |
| Avr. return to farm operator for his management and wages of his unpaid family help—(29 per cent of hired labour's wage)..... | 219 |

¹Total farm capital (real estate, livestock and machinery) as reported annually by the D.B.S. divided by the average number of farm operators using census data and the Labour Force Survey since 1945.

²Net farm income including supplementary payments as reported by the D.B.S. with interest paid on farm debt added back into net farm income—all divided by average number of farm operators.

³Average annual farm wage for males hired by the year without board; i.e. employee pays his own board out of this wage.

These figures require some comment. If it can be argued that the wage of a hired man is at least a living wage then it is clear that over a long-term period the farm operator has received a very modest figure for his management and a relatively low return on his capital invested in the farm business.

This long-time low rate of return on capital invested in farming is the hard core of the problem of financing agriculture, particularly the young man starting to farm.

Special Features of Farming Affecting Farm Credit Problems

The amount of capital that a farmer needs to reach reasonable efficiency varies at the present time from, perhaps, \$16,000 to \$50,000 or more. Moreover, earnings are usually seasonal. The farmers' need for credit of all kinds—long, intermediate and short, is, therefore, very considerable.

An important factor in the farm credit picture is the periodic necessity of refinancing farms, whenever existing operators die, retire or move to other farms or occupations. This is quite different from corporate businesses which, once financed, need not be financed again except in case of dissolution or sale of the company. The result is a constant need for large volumes of long-term capital for financing farms, apart altogether from any expansion in the capital employed in agriculture as a whole. It is this fact that provides a good part of the justification for state loaning agencies in the farm credit field, which will at all times be available as a dependable source of funds for farm financing.

No credit system can hope to cope with the extreme fluctuations in income which have been experienced in the past, and it must be the task of organized farmers to obtain greater security and stability of farm returns. Yet at best considerable instability will remain. A sound farm credit policy will recognize that whatever the current situation may be, farms are always bought for the long pull. Also, farm credit institutions must avoid contributing to alternate inflation and deflation of land values. Land appraisal practices take on great importance in connection with farm credit, and deserve constant and careful study and review.

Land is normally a non-depreciating asset, to be used by a farmer both as a home and a place of business throughout his working lifetime and then passed on. In view of the low average earning power of farm capital, mortgage credit should be available which will extend the period of repayment, if required, over the whole period during which a man farms.

Livestock represents a semi-permanent investment since it may be renewed by reproduction. A sound farm credit policy will recognize as fully as possible that livestock to a farmer is in the nature of a fairly long-term investment.

Farm machinery is subject to depreciation and obsolescence. Here again however, the fact that farming is not a business yielding high returns on capital must be recognized, and suitably lengthy periods for repayment should be provided for.

The individual farmer has considerable need for informed advice on the use of farm credit, and on sources of credit available. Also, a real problem is created for the lender, who is faced with the task of trying to be closely acquainted with the affairs and prospects of a very large number of individual, and different, businesses. This accounts in part, no doubt, for the wide use by farmers of local private credit. There is a clear need for the best possible advisory and extension services in the field of credit and farm management. In addition, some supervision by the Canadian Farm Loan Board should be provided in some cases.

The Young Man Starting in to Farm

Of the various classes of farm borrowers, it is the young man starting to farm whose needs and problems are at the present time causing the most concern. For the most part it is no longer possible to begin farming with homestead land and next to no capital. Mechanization of farming has considerably increased both the size of the efficient farm unit, and the amount of capital equipment needed to operate it. How, then, is a young man with little equity, going to get started in farming on a basis that will hold out some hopes that he will be able to make a living?

An interesting picture of the measures now being taken to try and meet this problem is provided in the forum findings of a National Farm Radio Forum broadcast held in December, 1954, entitled "Getting Started".

In answer to the question: "To what sources do young farmers in your area look for credit when they are establishing their own farm?", parents headed the list by a wide margin (the VLA ran a close second but this source of credit will presumably diminish in importance). Private loans were the next most frequent source, and then the Canadian Farm Loan Board, banks and farm improvement loans were important sources of credit. Junior farmer loans in Ontario and Land Settlement Board loans in New Brunswick and Nova Scotia were of considerable importance (as is the Quebec Farm Credit Act). Credit unions ranked relatively low, their importance varying sharply, no doubt, from area to area.

The second discussion question was: "How can a young farmer avoid unduly heavy investments in land, livestock and equipment when he is getting started." This question, of course, gets to the bottom of the credit problem for young farmers. Here there was a considerable variety of answers. The most commonly mentioned solution was to rent farms, on the one hand, and on the other hand to share the use of equipment with family and neighbours. To start out on a small scale, and to buy second hand machinery were also high on the list. Other methods mentioned, of lesser importance, were to start raising livestock on shares; to use custom work; to buy machinery co-operatively; to use horse-drawn equipment; to engage in very specialized farming; to work for neighbours in return for use of their machinery. Although parents were given in the first question as a major credit source, partnership arrangements with parents placed very low on the list as a means of getting started.

Since there is no point in a young man assuming more debt than he can carry, the conclusion is inescapable that it is not possible to start farming without having a very substantial equity. The difficulty of the situation is illustrated by this example:

Suppose a young man were to wish to begin farming on a farm with real estate worth \$10,000, and with livestock and machinery (second hand), worth \$6,000. On the basis of long time returns on farm capital ($3\frac{1}{2}$ per cent) he could reasonably expect \$560 for paying the interest and principal on a loan in addition to a little better than hired man's wages for his living expenses.

Under the present (January 1956) Canadian Farm Loan Board legislation he could borrow \$6,000 on the real estate. This would require an annual payment of \$435 for 25 years (7.25 per cent interest and principal). The balance for further debt payment would amount to \$125 (\$560-\$435). He could obtain a second mortgage from the Farm Loan Board of \$1,000, which would require annual payments of interest and principal averaging about \$125 for 10 years. As his total capital requirements are \$16,000, he would therefore need to have a minimum equity at the start of not less than \$9,000. For more valuable farms, the problem rapidly increases in difficulty. These are calculations familiar to every young man looking around for a way to start farming.

Answers of a more or less satisfactory nature are, of course, found to the problem. In some cases sons inherit their fathers' farms after helping run them under a wide variety of more or less informal arrangements. In other cases, young men start out in a modest way as tenants, under machinery-sharing arrangements and so on.

Unless a deliberate decision is made, however, to provide the young farmer with credit at lower interest rates than are required for regular loans to established farmers, the requirements for a sound, government operated credit policy to supply his needs are not greatly different from a sound farm credit policy for farm lending in general. Various provinces (Quebec, Ontario, Nova Scotia, New Brunswick) have special legislation for providing credit to young men, in ways suited to the provinces' special situations. On a national basis, it is doubtful that any special lending plan or lending agency is required to deal with men starting in to farm.

In this connection, it should be kept in mind that there is no point in giving to the young farmer more credit than he can repay. It should also be kept in mind that to give special low interest rates to young farmers may be, in part, self-defeating because of the tendency such low rates would have to increase the demand for farms and push up land values. The seller would gain by this (and the seller, of course, should get a fair price for his land) but the benefit of the especially low interest would not all accrue to the young farmer, and would not, in the end, solve the problem of helping him get established.

THE CANADIAN FARM LOAN BOARD

The Canadian Farm Loan Board makes first mortgage loans to farmers on farm real estate at 5 per cent with provision for repayment up to 25 years. On first mortgages it loans up to 60 per cent of the appraised value of the real estate. It will also take second mortgages on the real estate, the loans to be used for purchase of livestock and machinery, but its combined mortgages must not exceed 70 per cent of the appraised value of the real estate alone. The interest rate on second mortgages is $5\frac{1}{2}$ per cent and the maximum term for repayment is 10 years. The Farm Loan Board provides only a relatively small proportion of the mortgage credit in this country—perhaps 15 per cent of the total. Its lending policies are conservative, and its own financial policies are also very conservative. In a recent report the Auditor-General noted that the Farm Loan Board is providing for reserves substantially in excess of the requirements of the act under which it operates, and that nothing in the accounts pointed to the necessity for such reserves. Because of its relatively small volume of lending, its costs per loan are high. If the board were to discontinue setting aside its special provision for losses above the legal requirements, the interest rate could be reduced by $\frac{1}{2}$ of 1 per cent. If further, its present low volume of lending (less than \$8 million in 1953-54) could be doubled or better, lowered costs would, no doubt, compensate for a further $\frac{1}{2}$ of 1 per cent reduction in the interest rate. The Canadian Farm Loan Board is criticized also for its conservative policies, and for the allegedly excessive length of time required to get a loan through. It utilizes no advisory committees, at local, provincial, or national level. It obtains funds for lending from the Minister of Finance at current rates of interest. It should be possible for the board to considerably reduce its costs per loan by following a more aggressive policy of selling its services. It could also forego the accumulation

of unnecessarily large financial reserves. Instead of taking the cream of the mortgage business, this institution should perform its function of providing credit at minimum cost wherever the loan is reasonably justified.

In view of the very serious difficulties and handicaps experienced by farmers in the credit field, and keeping in mind the fact that history indicates that farmers are seldom if ever privileged to earn both a fair wage for their labour and a fair return on capital, it would not seem unreasonable to ask that the Canadian government should assume the relatively modest costs of administration of the Canadian Farm Loan Board program, and supply credit at the cost to the board of borrowing funds, plus the cost of setting aside legal reserves. In all, the board should be able to reduce its present rate of interest by at least $1\frac{1}{2}$ per cent.

Though under such a policy as we have outlined, including elimination of excessive reserves and more aggressive loaning policy, the board's risk of losses would be increased, it would be giving much better service, and losses should remain small unless a serious farm depression occurred. It may be presumed that the reason a government board was set up was in order that it might assume a certain amount of this kind of risk.

Under its present policies, the Canadian Farm Loan Board lends a maximum on first mortgages of \$10,000. For persons with sufficient equity to finance a larger loan, this maximum is too low in light of the size of the efficient farm unit in many areas, and should, therefore, be increased to \$20,000. With proper amendment of the Farm Improvement Loan Act there would seem to be little need for its special program of making second mortgage loans.

Also, where loans are relatively small, the ability of the farmer to make mortgage payments during difficult periods by reducing his living standards or by other emergency means is considerably increased. A maximum loan of 60 per cent of the appraised value is fully justified for loans of the order of \$20,000. For smaller loans a farmer should be able to borrow a higher percentage of the appraised value, provided an assessment of his plans and his personal capacities, indicates he is a realistic, efficient and responsible person. It should, therefore, be possible to borrow up to 80 per cent of the appraised value of the real estate on loans of up to \$8,000. The size of the mortgage as a percentage of the appraised value should be reduced progressively for larger loans down to 60 per cent for loans, say, from \$16,000 to \$20,000.

At the present time the board will permit a mortgage to be paid off as rapidly as the borrower wishes. However, it should also be provided that payments could be made in excess of regular instalments in any year, these payments to be available later to meet instalments in years when earnings of the farm are down. This sort of flexible arrangement is very desirable in view of the instability of agricultural prices and income.

One handicap under which the board is operating is its lack of close contact with local conditions. It is strongly recommended that the board organize a system of advisory committees, to be established by regions, whose members are acquainted with farming conditions and the people in the region. Because of their present very careful policies, the board understandably does not feel the need for advisory committees. Somewhat more liberal lending policies, and a heavier volume of loans, will make such committees a real asset to it, however.

The board is at present under considerable criticism for the slowness with which loans are processed. Although it is recognized that there are difficult administrative problems connected with making farm mortgage loans, everything possible should be done to speed up procedures. It seems likely that a major source of delay is the time often consumed in satisfactory completion by

the borrower of the complex application form. One suggestion is that this form be completed at the time of the assessors visit, and with the assessors' assistance, thus avoiding much error and delay.

Now, gentlemen, will you please turn to the recommendations on page 13 of our printed statement, the third page from the back?

RECOMMENDATIONS

In the field of national farm credit policy, the Canadian Federation of Agriculture recommends that:

1. Apart from a plan for emergency farm credit assistance, no new federal institutions in the field of farm credit should be established, provided the need for modification and improvement of present institutions and policies is met.

2. There is inadequate information available relative to the type, quantity, sources and nature of all forms of farm credit and its distribution by provinces. An annual survey of farm credit should be made and published by the federal government in co-operation with the provinces in as complete form as possible.

3. Credit unions and other co-operative credit agencies are ideally suited to giving a flexible and sympathetic lending service, and the possibilities for increased service in this field should be carefully studied.

4. The Canadian Farm Loan Board policies should be changed to:

- (a) Lengthen the repayment period of first mortgage loans to a maximum of 40 years.
- (b) Increase the maximum loan on first mortgages to \$20,000.
- (c) Change the present maximum percentage loan on the appraised value of real estate to 80 per cent on loans up to \$8,000, with graduated reductions in this percentage down to 60 per cent for loans of from \$16,000 to \$20,000.
- (d) Reduce the interest rate charged on first mortgage loans from 5 per cent to the cost of the money plus the legal reserve, leaving administrative costs to be borne by the government.
- (e) Actively go out to get a greatly increased volume of farm mortgage business.
- (f) Set up regional advisory committees which could advise Farm Loan Board officials with respect to loans.
- (g) Speed up procedures in the making of loans.
- (h) Farmers should be permitted to make advance repayments on their indebtedness which could later be considered to apply in place of payments which had to be missed due to loss of income.
- (i) Ensure that where she is a bona-fide farm operator no distinction should be made between women and men in considering them as prospective borrowers.
- (j) First mortgages should be available on the security of land without buildings where a legitimate claim is established, but in such cases these loans should, whatever the amount, be a maximum of 60 per cent of the appraised value of the real estate.
- (k) Borrowers who are given loans to the value of from 70 to 80 per cent of the appraised value of the real estate should be provided with adequate supervision, if required.

The CHAIRMAN: Are there any questions? I believe Mr. Argue has some questions to ask.

Mr. ARGUE: Mr. Chairman, I think Mr. Brodrick in presenting his brief to the committee has indeed rendered a valuable service and I certainly welcome the submission that he has placed before us. There are two criticisms which this committee has heard and about which members have spoken—two main

criticisms of the Canadian Farm Loan Board as now constituted, and I think you made reference to both in the course of your presentation. I wonder if you would care to make any comment on the statement that is made repeatedly, namely that the appraisal of loans is too slow? Can you give us some idea of the length of time you have found, from your own experience, it takes from the time a farmer makes a formal application until he is in a position to close the deal? It seems to me that this is a very important matter, because I know from my own experience in relation to the purchasing of land that the time element plays a very important part; if you do not close a deal when the opportunity exists the opportunity may not occur for long.

The WITNESS: That is a difficult question to answer because the experience is quite varied. I would say that the extreme length of time, possibly, might be up to six months, which is considerably too long. I quite agree—this is a complaint we have heard all across Canada. I think I am safe in saying that this is just too long a period. There certainly is a decided request from all farmers across Canada that this period which elapses between the appraisal and the actual granting of the loan should be shortened as much as possible.

Mr. ARGUE: You have said that a long period of time might be six months. Have you any idea what the general length of waiting time is? Is it a couple of months? I do not expect you to know the answer exactly.

The WITNESS: I am sorry, I cannot answer that question. Professor Hope...

An Hon. MEMBER: On that point, Mr. Chairman...

Mr. ARGUE: I do not mind being interrupted, but if we are taking turns in asking questions all around the circuit, then I would like to conclude. However, if we are going back and forth—which I personally prefer—I would be quite happy to give way for questions from other members.

The CHAIRMAN: We shall continue to take questions in order. Members who wish to ask questions will please let me know.

Mr. ARGUE: You mentioned, Mr. Brodrick, that you had one suggestion as to how the process of dealing with an application might be speeded up; I believe you suggested that the application form might be simplified. I do not wish to ask you too much on that particular aspect of the question, but could you tell the committee how you feel the appraisal could be speeded up; what is the trouble? Are the appraisals inefficient? Have they got the wrong instructions? What do they need to do in order to appraise a piece of land properly? Do they have to wait until the snow goes off, for example, and is that one of the reasons for the six months' delay?

The WITNESS: That is part of it. I think it is due to the lack of personnel and, as we foresee, the Canadian Farm Loan Board increases its volume of business, this is an operation in which the local advisory committees would fit in and be of assistance in speeding up the appraisal service.

Mr. ARGUE: Have you some general idea from your own knowledge how the appraisal is carried out? Can you tell the committee what an appraiser does when he starts on a case from the time an application is made?

The WITNESS: Yes. I have got a loan on my own farm.

Mr. ARGUE: Does he take soil tests, for example?

The WITNESS: Well, I can only speak in regard to my own specific case, and probably this would be the best way to answer the question. In that particular case it was the reeve of our own township who made the appraisal. This took place, of course, a matter of some eight or ten years ago. The loan is paid off now. The reeve of our township was the appraiser and it was just a matter of local knowledge in that particular case.

Mr. ARGUE: He just said, from his own general knowledge that the farm was worth that loan. That was the appraisal, right there?

The WITNESS: That was eight or ten years ago.

Mr. ARGUE: Was this particular man who carried out the appraisal an employee of the Canadian Farm Loan Board or did he act on a part-time basis?

The WITNESS: On a part-time basis.

Mr. ARGUE: Had he carried out a number of other similar jobs?

The WITNESS: I imagine he did at that time.

Mr. ARGUE: Have you any idea what appraisers do in other parts of Canada? What you have told us is from your own experience.

The WITNESS: That is my own experience, and as far as I can guarantee.

Mr. ARGUE: If I may make a comment here, we were told the last time we met that no consideration whatsoever was given to the municipal assessment on a piece of land in making an appraisal. That was the statement. Since I come from Saskatchewan, I had great difficulty in understanding it—

The CHAIRMAN: I do not think the statement was actually made in that form, Mr. Argue.

Mr. ARGUE: I have the record here but I am not able to search it and continue to speak at the same time. I think what I have said is a fair interpretation of what was stated but if you wish to look at this copy of the record, Mr. Chairman and look up exactly what was said I will, if necessary, amend anything that I have said. But, as I understand it, no consideration at all is given to the municipal assessment and, as I say, coming from Saskatchewan I find that a rather difficult thing to comprehend. In the province of Saskatchewan we have what I consider to be a very excellent assessment system. It is not something that came about with the particular government and party with which I am associated; I had the privilege of attending some lectures by Dr. Hope, and I believe at various times he made reference to the assessment system in Saskatchewan, as did a number of other professors at the university, and we were told, and it was explained to us, just what an excellent system we had in that province. It was probably in existence long before I had the opportunity to learn about it. Dr. Hope could explain it here better than I could, but it took into account such things as soil types, topography, stoniness, nearness to markets, the general level of production in the area, the general grade of grain produced, nearness to schools, and just about every factor that could be taken into consideration in an assessment.

I would be the first to admit that you cannot appraise a farm for sale value by taking the assessment, but at any given time—certainly in the province of Saskatchewan—I think you could use the assessed value as a fairly general indication of what the sale value would be at a particular time, and therefore of what the appraised value would be. One usually does not like to refer to definite cases—

Mr. CRESTOHL: On a point of order, Mr. Chairman, is this a question period or is Mr. Argue making an address or a statement?

The CHAIRMAN: At the moment it is a monologue. If you have a question, Mr. Argue, I think you should put it to the witness.

Mr. ARGUE: I did not think we were confined in a committee merely to asking questions. It has never been so yet in any committee of which I have been a member. I will not press the point, but I just wanted to explain some aspects of the assessment system we have in the province of Saskatchewan.

Mr. CRESTOHL: I do not mind if Mr. Argue wants to make a statement, provided we can question him on that statement.

Mr. ARGUE: I would be happy to answer questions on any statement I might make.

The CHAIRMAN: I do not think the committee will wish to follow that course.

Mr. ARGUE: I am about to conclude my remarks, Mr. Chairman.

Mr. MACDONNELL (*Greenwood*): May I say, Mr. Chairman that I think this is very relevant. We have a difficult subject here, and I think a discussion would help us all.

Mr. CARRICK: I must say, Mr. Chairman, that I was puzzled by what Mr. Argue has been saying. I have no objection to his making any statement he wishes to this committee, but I think that if he wants to make a statement the place to do it is in the witness box. Looking at the record as this matter stands leaves one in a state of uncertainty; it is a question of procedure, Mr. Chairman, and I was going to ask this: if we call witnesses, should we not try to get information from the witnesses rather than give information ourselves on the matter under discussion?

The CHAIRMAN: That is the whole point I am making. If you wish to give evidence, Mr. Argue, apply to the committee and they will consider whether you are a suitable witness. If the committee feels the evidence is sufficiently valuable, they can grant the privilege of appearing as a witness. In the meantime, with due deference to you, Mr. Macdonnell, I do not think that Mr. Argue's statements are something which should be heard.

Mr. JOHNSTON (*Bow River*): I think we would be getting into a very difficult position if we were to abide by the suggestion which has been made because in effect, Mr. Chairman, you are saying now that no member of this committee may express an opinion other than by means of asking a question of the witness...

The CHAIRMAN: What I said...

Mr. JOHNSTON (*Bow River*): You may say, Mr. Chairman, that I am not interpreting your remarks quite accurately. But what is the difference between expressing an opinion and developing an argument? Who is going to say where an argument starts and where it stops? I think we would be getting into a great deal of trouble here if we were to try to decide a question of this kind.

The CHAIRMAN: I think there is a great deal of difference, Mr. Johnston, between a comment and a speech.

Mr. JOHNSTON (*Bow River*): How long does it take a comment to become a speech? Who is going to decide? Will it be the chairman, or some of the Liberal members or the committee?

The CHAIRMAN: The committee will decide if necessary. I am deciding right now. If you are not prepared to accept my suggestion I will put it to the committee.

Mr. JOHNSTON (*Bow River*): I think that if we try to carry out the suggestion that no member of the committee may express an opinion on these things we should have a very definite ruling as to how long a question must be, otherwise...

The CHAIRMAN: I am just trying to adhere to proper court procedure, as the Privy Council does, until the case is presented, no decision is made.

Mr. JOHNSTON (*Bow River*): I am really referring not to yourself but to some of the decisions made by members of this committee, Mr. Chairman. I know you are perfectly fair and just.

The CHAIRMAN: We are wasting a lot of time on this, and Mr. Argue has already stated that he is almost through.

Mr. ARGUE: I think I am correct in saying, Mr. Chairman, that the rules governing discussion in committee are the rules covering discussion in the

House of Commons. I have had some experience in these matters and I think it is a fact that Beauchesne and the rules quoted by the other authorities are rules which apply to discussion in committee. I do not, therefore, feel that because statements are made by a member in committee they are out of order, or should be considered as such. But, as I said, I am about ready to conclude.

We might be able to develop this point a little further here if the committee were prepared to hear Dr. Hope at a later stage on this particular matter and, indeed, on the whole credit field with which I know he is very conversant. I think the statement made by the witness with regard to how the farm—the farm on which he had the loan—was appraised is an excellent example of one of the ways in which we might speed up appraisals.

The CHAIRMAN: This is one of the methods that has been used. It is one that has been used already.

Mr. ARGUE: But anyway, Mr. Chairman, if it is already in use—

The CHAIRMAN: The witness has stated it is something that happens.

Mr. ARGUE: All I am saying is that it is an indication of a method by which we could reduce the period of these six-months appraisals. The witness spoke of this one example, and he had only one example of a case in which an assessment was made in short order.

Now I want to deal with the second general criticism that has been made in parliament and in this committee, and that is that the appraisers have been too conservative in making their appraisals. What would you say to that, and can you give some idea of the extent to which their appraisals are too low?

The WITNESS: I cannot answer that question truthfully. Possibly Dr. Hope can do so.

The CHAIRMAN: Let us finish hearing this witness.

Mr. ARGUE: I will save that question for the time being.

Mr. MACDONNELL (*Greenwood*): I may say that Mr. Argue's question is, in my view, a relevant question and I hope we are not leaving it unanswered.

The CHAIRMAN: I understand that Dr. Hope will be called later.

Mr. ARGUE: You made a statement in your brief, Mr. Brodrick, that the Canadian Farm Loan Board had followed a very careful policy. Could you elaborate on that? It might be tied up with the appraisal and other factors but I think the evidence that the amount of business done by the Canadian Farm Loan Board was between 15 and 20 per cent of the farm mortgage business certainly indicates that the policy of the board is quite conservative. It is recommended in the brief that a more aggressive policy of extending farm credit should be followed and that up to the present time the Canadian Farm Loan Board has been taking the so-called "cream" of the farm mortgage business.

The WITNESS: We have stated here in the brief that in our opinion certainly a more aggressive policy of extending farm credit has to be followed, and that up till the present time, in our opinion, the Canadian Farm Loan Board has been taking the so-called "cream" of the farm mortgage business.

Mr. ARGUE: That was the next phrase I had in mind—the "cream" of the lending business. I take it that it is your view that the Canadian Farm Loan Board at the present time prefers to make loans to farmers who are in a relatively good financial position, and at a relatively small risk?

The WITNESS: I would say so, yes.

Mr. ARGUE: Would it be fair to say that in many instances—or in a number of instances—loans are made to farmers who are now operating fully economic units—that they are made normally to people who might be called

relatively large farmers in order that they may extend their operations still further? I will tell you what I have in mind, it is something like this...

The CHAIRMAN: Those are pretty leading questions, are they not, Mr. Argue?

Mr. ARGUE: Definitely, but I think they are important questions.

In your experience, Mr. Brodrick, and in the light of your statement that the Canadian Farm Loan Board mostly takes the "cream" of the lending business, would you say that a man who is a relatively larger farmer—and on the prairies a relatively large farm might extend to 1,000 acres—who approaches the board in a decent financial position, and having a clear title to his land and a full line of equipment would be more likely to get a loan, say of a few thousand dollars to buy some more land than a farmer with two or three hundred acres of land who still owes half of the purchase price?

The WITNESS: If I were in the lending business I think I would rather lend to the type of person you mentioned first than to the other.

Mr. ARGUE: And that is what you mean by the phrase "taking the cream of the business"?

The WITNESS: Yes. I think the Canadian Farm Loan Board has been operating largely in that field. In other words, they are taking the attitude of the banks: lending money to a man who relatively does not need it, but declining to lend money when he does need it.

Mr. MACDONNELL (*Greenwood*): Are loans being made to those who, in all probability, could get them elsewhere?

The WITNESS: That could be, yes, I will say so. The only advantage, of course, lies in the interest rate. The interest charged by normal loan companies for private individuals is inclined to be higher—roughly six per cent, I would say now.

Mr. ARGUE: I have not concluded.

Mr. GOUR (*Russell*): I am not going to listen all the time—

Mr. ARGUE: I have the right to ask questions until my questions are completed.

The CHAIRMAN: You have been quite a long time, Mr. Argue.

Mr. ARGUE: They tell me that Mr. Fleming asked questions for two and a half hours in the estimates committee the other day, and I do not think members should be too impatient.

The CHAIRMAN: I hope you are not going to follow that precedent.

Mr. ARGUE: Since we have been informed that the Canadian Farm Loan Board in its general policy is taking the cream of the lending business and very often lending to farmers who could go elsewhere, is it your suggestion that the policy of the Canadian Farm Loan Board should, in addition to paying its way, have a social object in its policy, namely the establishment of economic units, assistance to young farmers in purchasing equipment, provided they hold certain equity, and so on? To put it in another way, what do you think the general policy of the Canadian Farm Loan Board should be in order that it might get away from this current policy of making loans to farmers who could raise the money elsewhere?

The WITNESS: May I say, sir, that in our consideration of this question of farm loans and farm credit, in so far as the policy committee of the CFA was concerned, although the individual was considered, we actually approached this problem from the viewpoint of the industry as such and in the light of what was considered an efficient farm credit policy by any lending agency, whether it be the Canadian Farm Loan Board or any other. We were looking at this from the point of view of the agriculture industry as a whole. For

instance, the question may be raised—and I hope it will be—with regard to the period of repayment, and a suggestion that it be lengthened from 25 to 40 years. Some question might be involved there as to the ability of the individual farmer to live that long; but we felt that in order to provide agriculture, as an industry, with an efficient form of credit, this period was the maximum length of repayment period necessary. We were not primarily considering the individual within the industry. I realize, sir, that we may possibly have been a little too “cold” with regard to the social issues, but we were trying to provide a flexible system of repayments, a longer period of repayment and lower annual repayment rates so as to provide agriculture with what we considered to be the necessary credit machinery.

Mr. ARGUE: Your suggested interest rate of three and a half per cent assumes a three and a half per cent rate and a repayment period of 40 years. What would that otherwise work out at—would it be five per cent?

The WITNESS: I am afraid I cannot answer that. It is a question of economics; and I am not too fast with a pencil.

The CHAIRMAN: If the witness cannot answer . . .

The WITNESS: I suppose it would be around five per cent.

Mr. ARGUE: I would guess that just by looking at the figures. I may be wrong. In your table on page 2—and this is my last question—you set out a certain number of figures—the average capital per farm, and so on—and then you take the interest on the average capital at three and a half per cent. What I am driving at is this: assuming that the government accept your recommendations—and I only wish there was some real hope that they would—you would get a repayment rate of approximately five per cent?

The WITNESS: That is right.

Mr. ARGUE: Taking this case history, the five per cent would increase the amount to \$450, or something in that neighbourhood and further reduce the return to the operator for his labour and management to a figure somewhere in the neighbourhood of \$800 per annum. My question is this: do you actually think that a farmer can pay five per cent over a period of 40 years and still be able to provide for his family, in return for his labour and management, and income anywhere near to the general level of income derived by other Canadians in other industries? Or, if the government should go this far, even with that further assistance is it not likely that farm incomes would still be a good deal less than the incomes derived from other businesses?

The WITNESS: The question might be answered in this way: we approached this as representing the barest minimum always. By that, I mean we felt that the average farmer had to have at least this amount on which to live, and that over a 30 year period the largest rate of interest he could afford to pay was three and one half per cent.

Mr. ARGUE: So that even with this further assistance which you suggest, in purchasing land, is it not correct that the farmer would have to accept a lower general income than appertains in other industries in order to make the payments?

The WITNESS: That is quite right.

By Mr. Charlton:

Q. First of all, Mr. Chairman, I want to commend the federation for its very splendid brief which Mr. Brodrick has presented.

According to the brief you have suggested that more use should be made of local committees. Do you not think by the same token that there should be more local inspectors instead of so many full time inspectors; that there should

be part time inspectors across the country who might be made more use of?—A. We have had a look at the system set up for co-operative credit in the United States and we thought that a portion of that system—in so far as the advisory set-up was concerned, within that co-operative credit system in the United States—might be used in the setting up of these local regional committees. I agree that possibly part time appraisers might be used to advantage.

Q. You have made no direct mention of the local inspector aspect?—A. No.

Q. You just mentioned local committees and I wondered if the inspectors would not be of advantage to the farmer as well as to the board because it would cost less money on a piece basis.—A. May I correct my former statement; these local or advisory committees were considered as bodies to work along with a permanent inspector.

Q. You mean to say that in your suggestion you intimate that the local advisory committee would be in charge of the assessments for loan services?—A. That is right, to work very closely with their appraisers.

Q. You included that in your suggestion?—A. Yes.

Q. I do not think it is quite clear just what you do mention. According to your brief it is obvious that you do not agree that this board should be a profit-making organization?—A. That is right.

Q. Which it obviously is when the income tax paid last year was \$37,341. Is it not a fictitious understanding that this board is supposed to be set up to help farmers who find it difficult to get a loan any place else?—A. That is right.

Q. So it would naturally follow that these loans are not just the cream off the top, and that the Canadian Farm Loan Board could not be expected to make a good profit, and yet do the things it is supposed to do for the farmer?—A. I think our recommendations are self-explanatory.

Q. On page 5 of your brief, Mr. Brodrick, in the last paragraph you say:

Under the present (January 1956) Canadian Farm Loan Board legislation he could borrow \$6,000 on the real estate. This would require an annual payment of \$435 for 25 years (7.25 per cent interest and principal).

Does that make sense?—A. He could borrow \$6,000 on a \$10,000 farm or a \$10,000 investment.

Q. That is true. And the amount of repayment he would have to make on his \$6,000 loan you have figured at \$435 for 25 years.—A. That is right.

Q. And you mention in your paragraph 7.25 per cent interest.—A. That is for amortised payments.

Q. Do you know how that figure is arrived at?—A. I would have to refer to Mr. Hope.

Q. The total amount is four, eight, seven, five; and the loan is for \$6,000 which would appear to be more than 7.25 per cent. However, I have no more questions.

Mr. MACDONNELL (Greenwood): Might I make one preliminary observation, Mr. Chairman? I will not take more than 30 seconds.

The CHAIRMAN: You may.

Mr. MACDONNELL (Greenwood): What we are considering here is something of the very greatest importance because it seems to indicate that we have in farming a depressed industry. We should find out if that is a fair statement, and if so it seems to me that this is a situation which should greatly concern us all because I do not believe that a nation can go on being prosperous if farming is depressed. At the present time it seems to be prosperous, but with depressed farming, I do not think that can continue indefinitely. Now, my first question is in regard to a matter which has already been discussed. I hope we can get officials of the board to tell us how long it takes them to make an inspection and to make a loan. I am not satisfied. If people say that it takes weeks, then I want to know why. Why can't it be done in days?

If we need more inspectors, then we should have them. And I would like, before this committee adjourns, to feel that we have a real answer. I may be a little prejudiced against committees. Committees always frighten me a bit because they always seem to me to like spending a lot of time. I would be more reassured if we could have some one individual who could be put on the carpet if it takes longer than would seem reasonable. Now I want to ask one question which may be difficult to answer.

At the top of page 2 we have a statement to this effect:

Average value capital per farm (1926 to 1954) \$8,630.

Now if we turn over to page 3 we have a statement at the top of that page which reads:

The amount of capital that a farmer needs to reach reasonable efficiency varies at the present time from, perhaps, \$16,000 to \$50,000 or more.

As the negro-gentleman said "dem two figures don't paralyse!" I do not feel that I quite understand it when he said that the average capital value per farm is \$8,630 when on the next page he says "the amount of capital that a farmer needs to reach reasonable efficiency varies at the present time varies from \$16,000 to \$50,000 or more". Is that an average based on the totality of the Canadian farms, including marginal farms?—A. That is right.

Q. It leaves me still perplexed.—A. May I answer just briefly in this way?

Q. Yes.—A. I realize that from 1926 until 1940 or 1941 the size of a farm was fairly constant; the lack of mechanization was fairly constant, but in the last ten years with the mechanization that has taken place the farms across Canada have tended to become larger units in order to support that mechanization, and they are now efficient operating units which has increased the value to the \$16,000 to \$50,000 figures.

Q. Could you tell us about the sizes of farms and about conditions east and west? I am only a city fellow and I do not know the answers.—A. Dr. Patterson made a survey in Ontario. He is head of the economic branch of the Department of Agriculture, and he made a survey in Ontario of the average capital investment on the farm and of the average size of the farms in Ontario, and he said it is now roughly around \$28,000.

Q. You say \$28,000?—A. \$28,000 and that is quite true.

Mr. GOUR (*Russell*): Yes, that is true.

The WITNESS: In speaking for the west it is rather difficult as far as I am concerned, but I think Mr. Bobier who is a member of our committee said that in his opinion the average value would vary between \$30,000 and \$50,000 for an efficient operating unit in the west.

By Mr. Argue:

Q. One is average and one is efficient. These things are not quite comparable.—A. That is right. But I cannot tie that in as far as the west is concerned.

By Mr. Macdonnell (Greenwood):

Q. Perhaps we could have from the officials of the board, what their approach to this is. It comes to me as a surprise that the board is regarded as a profit-making operation. I thought the object of the board was public service, and to make provisions for loans. The idea that it should be a profit-making organization took me by surprise. Perhaps that is a question I might ask the board of officials.

The CHAIRMAN: Yes, Mr. Chester is still here. Perhaps we should finish with this witness first.

By Mr. Macdonnell (Greenwood):

Q. Very well, I shall leave that. Now may I just add one question; you say on page 3:

An important factor in the farm credit picture is the periodic necessity of refinancing farms, whenever existing operators die, retire or move to other farms or occupations. This is quite different from corporate businesses which, once financed, need not be financed again except in case of dissolution or sale of the company.

Now, I find it hard to understand this. I realize the question that arises when an operator dies, but with regard to the asset itself, would it not be true to say that a well-managed farm should need less refinancing as an operation than a plant which wears out, while the farm does not wear out if it is well operated? Is there anything in that, and can that statement be explained, because I find it hard?

The CHAIRMAN: This is a statement made by the organization. You may agree with it. Personally I think it is completely erroneous. I would have thought that to say "a corporate business... once financed, need not be financed again...", is simply, in fact, a laugh.

By Mr. Macdonnell (Greenwood):

Q. You and I are agreed on that, but I thought perhaps I was not doing justice to this statement and I thought we might have an explanation of it because I think it is a very important statement.—A. The question is that a corporate business can be carried on regardless of the loss of the individuals who are in that business; if it is a share capital business, it is carried on regardless whether the shares are sold or the operator dies. But in so far as a farm is concerned, it is usually owned by one individual and upon his death, or upon the sale of that farm, there is a question of refinancing, complete refinancing.

By Mr. Pallett:

Q. You mentioned Dr. Patterson. Did his survey not show that the average farm in Ontario was refinanced every 20 years?—A. From 20 to 25 years. That is correct.

Q. And that was a scientific estimation?—A. That is right.

By Mr. Macdonnell (Greenwood):

Q. It is quite true that when a man dies a problem arises with regard to the carrying on of the farm, and my bet that is a different matter from refinancing. You are not using the word refinancing in that sense; you are using it in the sense of the change of ownership?

The CHAIRMAN: It is really a re-purchase.

Mr. MACDONNELL (*Greenwood*): Perhaps my question should not be pursued, because we are not talking about the running down of the physical assets at all.

The WITNESS: No.

By Mr. Gour (Russell):

Q. You have said that you tried to be fair. You said that you got the cream of the loans. But did you check up with the richest province, Ontario? Did you check the farms in the province of Ontario which has the richest farms of all Canada? Take the case of a young couple—I think they could be considered the cream of farming. If you talk about the cream, I know something about farming and loans myself. A lot of people have money to lend

to farmers provided they consider the loan is a safe one. I do not suggest that they would get less return from a farm loan than from a comparable investment elsewhere, but I want to be fair. Such people realize the dangers and they will provide money quickly in appropriate cases. That is why I want to establish the fact that in Ontario they lend money. Until 32 or 33 years ago we could talk about low rates. I find that the province of Ontario makes loans at $4\frac{1}{2}$ per cent, not $3\frac{1}{2}$ per cent, and these farmers are well off.

Mr. PALLETT: No, it is 4 per cent.

Mr. GOUR (*Russell*): I have proof in connection with 80 per cent of the small loans that we do not lend in proportion with the assessment that we make on the farm. I appreciate what you said a moment ago that it would make more money for the farmers in Ontario because the farms are larger, the wages are higher, the hours are shorter, and that they have larger farms mechanized than they did about 40 years ago, and I think that is longer than the average working life.—A. Perhaps I should offer some explanation as to the length of the term. We were approaching this thing from the industrial standpoint and we thought that we should have annual payments kept in a position where possibly we could assist the young farmer starting to farm, or the efficient farmer, who through lack of capital cannot efficiently operate his farm, in order to keep those annual payments down. We also accompanied that with the flexible system of repayment, not necessarily confined to annual, semi-annual or monthly repayments, or payments, but we did suggest that there might be a repayment system set up whereby the farmer could in a good year pay for three or four or five payments, and that could be applied to those years in which he has a bad crop loss.

Q. I think that is a good thing.—A. I do not know if I have answered your question, but we tried to approach this thing from an industrial point of view rather than from an individual point of view.

Q. How about the length of time it takes? You said six months. I have had some experience with this over twenty years ago and I can say that it takes over two years from the province when the application comes from northern points. Are efforts made to check up on the acreage of the farm? I think they should have longer time. I think they should have more loans. The things should be checked up and they should get a lawyer to do the job. There is a six month's delay. I don't care what you say; I know what I am talking about. I don't want to bring the lawyers in because I think they are over-worked; they should get more lawyers. There are not enough. The same applies to the federal and provincial; the people do not make out the applications properly and it takes too long for the appraiser to come. This applies under the Canadian farm loan and the Ontario farm loan. I do not mean in the winter because you cannot appraise a farm in the winter. That is my point. I think there should be a lower rate. They take the money they make on the farm and buy a house in the city and do not pay the mortgage on the farm. They buy a house in the city where they make more money than they make on the farm. That is all. Thank you.

By Mr. Quelch:

Q. I also think that the federation of agriculture should be complimented on presenting their lucid brief. I had underlined a number of passages and a number of questions which I wanted to ask, but they have already been asked, therefore I shall avoid repetition as much as possible.

I think any of us who have come into contact with this act will agree wholeheartedly that the policy has been slow, and there has been too much delay. I have often discussed this problem with farmers, and they said they have taken out mortgages from the line mortgage companies rather than to come to the Canadian Farm Loan Board because they thought there was too

much red tape and that it took too long. Now I have a couple of points: on the question of advisory committees, I take it that you have in mind a number of men in a certain region being appointed as advisors, and that they would actually advise on each application, where there is any question as to whether the loan should be made or not.—A. Correct.

Q. Not merely on the policy but on the application.—A. That is right.

Q. And then on page 9 in the top paragraph, you have this to say:

It seems likely that a major source of delay is the time often consumed in satisfactory completion by the borrower of the complex application form. One suggestion is that this form be completed at the time of the assessor's visit, and with the assessor's assistance, thus avoiding much error and delay.

Actually you would be advocating two application forms, one, a very brief and simple one which would be filed when making the application, and at that time the \$10 would be paid, while the other complicated and longer, would be brought by the assessor and at that time it would be signed by the farmer?—A. Right. I would imagine that is the way it would work in practice.

Q. You have to have some kind of an application made before the assessor?—A. Yes.

Q. Have you found a lot of delays caused by the forms being filled in incorrectly?—A. Yes.

Q. I think this would probably be more true in western Canada than in the east. Have you come in contact with any localities that have been black-listed where it is practically impossible for a loan to be obtained?—A. No.

Q. There have been districts in western Canada. We will probably have a chance to discuss that when the board is here.

By Mr. Crestohl:

Q. Mr. Brodrick, I would like to refer for a moment to the figures you quoted which, to me, are somewhat disturbing. Am I correct in assuming that your figure of \$967 represents the average return to an operator for his labour and management for a whole year?—A. \$967 plus \$219.

Q. How does that compare with other countries?—A. Well, I would say again I probably should refer this question to Doctor Hope. However, I would say we on the average are probably fifth or sixth in income with other countries.

Q. What do you mean by fifth or sixth? What are the average per year, say, in the upper brackets of countries?—A. Of course, you must realize that the average returns, for instance, in Great Britain on a subsidized agriculture are entirely different from Canada. Also in Australia, South Africa, United States; we are practically alone in that we are showing relatively nearer the true net returns of agriculture than any other country in the world because all of them are operating under subsidized systems.

Q. Do I understand your answer to convey the impression that in Canada we are showing the best possible returns for an operator for his labour and management than any other country in the world?—A. I am not saying the best possible returns.

Q. Or the highest?—A. No. Not the highest either. I am saying this—and this is rather involved—that our system of support prices that are operating in our whole agricultural policy—and I am talking of governmental agricultural policy as of now in comparison with other countries in the world—is perhaps the nearest to the free market.

Mr. ARGUE: Nearest to nothing.

By Mr. Crestohl:

Q. Would you consider it reasonably satisfactory?—A. I do not want to get involved in agricultural policy, sir. The answer is no.

Mr. ARGUE: Hear, hear.

By Mr. Crestohl:

Q. The answer is no because you quote those figures \$967 and \$219?—A. That is part of the answer.

Q. The figures which you have established are an average over the past 29 years?—A. Yes.

Q. Can you tell us what those figures would be, for example, during the past 5 years?—A. I think the average would be—again I would rather refer this question to Dr. Hope. It is an estimate as far as I am concerned and I hope you will consider it as such; but I would say the average would be around perhaps \$1,400 or \$1,500.

Q. Could you get the figures for us?—A. Yes.

Q. Why did you just pick 29 years for the determining averages? Why did you not pick 59 years? The average would be much lower if you had.—A. Yes.

Q. Why did you pick 29 years?—A. From 1925 to 1929, in the policy committee's estimation—and we discussed this thing in submitting a brief on support prices and so on to the government last year and again this year—we felt that 1926-29 gives the fairest picture of the relation of parity with agriculture with respect to our economy. Since that time we have had the depression—the dirty thirties—plus war, then post-war, and so actually, in order to get what we considered a fair average in relating the best of our economy, that is the reason we picked those particular 29 years.

Q. We were talking before about the making of loans. If you yourself could imagine yourself in the position of making loans to farmers, would you ask for greater or lesser security than what the Farm Loan Board is asking?—A. Less.

Q. You would ask for less security?—A. Yes.

Q. And you say that in all seriousness if you were a private lender of your own funds?—A. Well, I would say that if it is looked upon as a long-term investment; and I would say the records of the farmers, and in particular the record of farmers on farm loans, has been exceedingly good over the whole world—I am not speaking of Canada only. I do not think Canadian farmers are entirely different from anyone else.

Q. If you would expect personally less security, do you also say with equal frankness that you would ask for lower rates of interest?

Mr. ARGUE: I think it is assumed that the witness is frank; I think that is assumed.

By Mr. Crestohl:

Q. The witness can answer for himself. He does not need your protection.—A. I will take this one on; leave me be. Again I would have to refer you to this, that agriculture is a special industry and has to be considered as such. Generally speaking, agriculture across all the world is in the lower relationship with other sections of the economy. So, if we are going to have an efficient farm credit system we must consider agriculture in a special category, and this suggested $3\frac{1}{2}$ per cent is the lower interest rate.

Q. My question was, if you personally, Mr. Brodrick, were a financier and were lending money as your business; you said before you would ask for less security than what the board requires now. That is clear. Is that right?—A. May I clear that one up?

Q. Yes.—A. If I was in the position of the Canadian Farm Loan Board, I would.

Q. What do you mean if you were in the position of the Canadian Farm Loan Board?—A. It is nonsense—if I may use the word—that a private investor is going to go out and lend money for less interest.

Q. That is what I would like to have. We will draw the conclusions. I would like a frank answer from you.—A. Is that frank enough?

Q. I still do not understand it. Apart from the glee that some gentleman find in the work of this committee, in all frankness, today, if you were a private lender of funds—we will make the comparisons and draw the conclusions later when we are discussing it—would you ask for more or less security than what the Farm Loan Board is asking now?—A. I would ask for more.

Q. And would you ask for more or less interest than the Canadian Farm Loan Board is now asking?—A. I would ask for as much as I could get. That is what money lenders usually do.

Mr. CRESTOHL: Thank you very much.

By Mr. Bryson:

Q. Mr. Chairman, I have no fault to find with the findings in the main brief; I think they are very well laid out. But I do find in the recommendations that there are one or two questions which I would like to ask the witness. First of all, in the brief he says that farmers need \$15,000 to \$16,000 for an economic unit, and how do you reconcile the recommendation that \$9,600 would be enough money? Sixty per cent of \$16,000 figures out, according to me, to \$19,600. Now, if a man is going to get \$16,000 would it not be better that he should get all of the \$16,000 from the one source? We have to stabilize agriculture and I think the answer to Mr. Crestohl's question possibly is that private lenders are not interested in stabilizing agriculture, and they are.—A. That is right.

Q. They are interested in stabilizing their own private interests.

The CHAIRMAN: Have you not misread that? I believe it was 60 per cent of a value which would permit a loan of \$16,000 to \$20,000.

The WITNESS: That is right.

By Mr. Bryson:

Q. I am sorry; I have read it wrong. The next question is: You have—appraised—the situation very well when you say on page 3: "No credit system can hope to cope with the extreme fluctuations in income?". Yet, you have no recommendation that would seem to take care of that situation. As I understand it the V.L.A. do, to some extent, take into consideration the returns that would be available from a piece of land in maybe one year and make reservations in the repayments for that.—A. It is our first recommendation, in section 4 (a) of our recommendations to extend the repayment period to 40 years as far as the Canadian Farm Loan Board is concerned. There is another clause, clause (h) in our recommendations, on the flexibility of repayment, allowing repayments to be made. The last recommendation is supervision of loans, clause (k), and that would indicate possibly farm management supervision such as V.L.A. provides in cases where required.

Q. I would like to ask you why you did not recommend that the assessment be used? Now, I say that because at one time I had some experience with an assessor, taking him around, and I saw how he valued the land. They take a shovel and look at the soil and so on. Land is sold largely in the fall and in the spring. If it is sold in the fall when the snow comes the assessor's

hand is tied and the loan is held up for six months. The particular fellow I went around with said that under ideal conditions six months would be an average. If the assessment was taken into consideration it would remove a great deal of delay within the winter months.—A. I know in Ontario assessment values vary very greatly from county to county and from township to township; it would be absolutely impossible as far as Ontario is concerned.

Q. That is the answer. I am not acquainted with it.—A. However, the assessed value has some relationship to the sale value. You could possibly figure that relationship, but not to take it as the true value.

Q. I did not mean that. I meant that his judgment would be based on the assessment.—As far as Ontario is concerned as between counties one is low and one high, and so on.

Q. In recommendation (j) you say: first mortgages should be available on the security of land without buildings being taken into consideration. Now, in the province of Saskatchewan that has applied in the case I pointed out.—A. The Canadian Farm Loan Board?

Q. Yes. Buildings were not taken into consideration.—A. May I ask you, sir, was that a question of a farmer who had buildings and was purchasing another piece of land without buildings? In other words he was expanding his operation?

Q. No. There were buildings on the land in each case.—A. That is different. The reason that this recommendation is in is primarily because of the young farmer who was willing to live with his father on his father's farm, was going to start on his own and was purchasing land possibly without buildings. It is the policy of the Canadian Farm Loan Board at present that they will not grant a loan on the land without buildings. He must live on it, in other words, in order that a loan may be granted. It is also the case where, for instance, a farmer as I mentioned previously through mechanization has to increase the size of his farm; actually more buildings are a detriment in so far as that particular case is concerned. He might wish, because of lack of capital possibly, to place a mortgage on the whole farm to expand and could operate more efficiently. Those are the two principle reasons why we are suggesting that loans should be granted on land alone without buildings.

By Mr. Carrick:

Q. Mr. Brodrick, I have just a couple of questions. You were asked some questions about the length of time involved in getting a loan through. I know you want to be fair, but the impression one gathers from your brief and from what was said is that you think there is unnecessary delay on the part of the Canadian Farm Loan Board. Mr. Chester was asked about that and he said, as I recollect it, that as far as the Canadian Farm Loan Board was concerned he does not think there is any unnecessary delay, but that there was delay in completing transactions for reasons which did not lie within the control of the board. Have you taken this up with the Canadian Farm Loan Board to ascertain the causes for the assumed delay?—A. The committee had a discussion with some officials of the Canadian Farm Loan Board a matter of a year or so ago, and that was among the questions asked.

Q. You were not a member of that committee?—A. Yes.

Q. What were the delays that you learned of at that time that could have been avoided?—A. Well, of course, in so far as the operation of the Canadian Farm Loan Board is concerned, their story and the stories we sometimes get from the farmers vary. I am not saying either one is right. I am not accusing anyone, but I am saying this: that because of the need for legal assistance more staff is, possibly, necessary within the Canadian Farm Loan Board itself.

Q. But Mr. Chester states that legal work is done outside the farm loan board?—A. But it is necessary in order to obtain a loan—is that correct?

Q. I am not familiar with the procedure, but I was taking Mr. Chester's statement at its face value.—A. That legal work has, of necessity, to be done—the drawing up of mortgages and so on. Those are normal transactions in any business.

Q. Has the farm loan board any control over the length of time that takes?—A. I do not think they have. But should they have? That is the point.

Q. Well, I do not know. I am just asking.

By Mr. Macdonnell (Greenwood):

Q. You could change the solicitors. Would not that be an effective control?—A. Several things could lead to delay—for instance, the speed or lack of speed, with which the property has been assessed after the application was made; possibly, also, incorrect information appearing on the application because of lack of understanding of what was required. All these things can lead to delay; also you have to take into account that often the land is covered with snow in the wintertime.

By Mr. Carrick:

Q. You would not blame the Canadian Farm Loan Board for that?—A. No, but all these factors add up to delay, delay, delay.

Q. When you speak about this delay, you do not say it is necessarily due to the fault of the Canadian Farm Loan Board?—A. It is due to a combination of factors, not necessarily all due to the Canadian Farm Loan Board. But the whole thing is this: that the amount of "red tape" considered necessary with regard to an application for a loan from the Canadian Farm Loan Board sometimes drives people away from the Farm Loan Board to the private loan companies, even though the latter charge a higher rate of interest; and we do not feel that that should be so.

Q. One other question: you were saying about the Canadian Farm Loan Board that it was "taking the cream of the mortgage business". Now, from your contacts with the Canadian Farm Loan Board, have you any knowledge of the applications which they received and which they rejected?—A. No, no exact knowledge.

Q. When one speaks of "taking the cream of the business" one usually thinks of taking the best business, the business that is most profitable?—A. That is right.

Q. If you have no knowledge of the propositions which they have rejected, are you in a position to say they are taking the cream of the business?—A. I presume you are a legal man, sir. I would say this: that from the fact that the Canadian Farm Loan Board has only taken about 15 per cent of the farm loan business and in view of the loss ratio which the board has suffered—it has been almost nil; in fact the board is making profits—the conclusion could be drawn that if they are not taking the cream it is near the top.

Q. You make the statement that they take the cream of the business because they have made a profit and because their ratio of loss is small, only 15 per cent. Beyond that you do not make any serious assertion that they are refusing business which they ought to take?—A. No. It is a combination of factors, sir. This factor of delay is one thing which makes farmers hesitate to use the services of the Canadian Farm Loan Board. That as I say, is one factor and it is possibly among the most important. The question of this rather involved form of application is another.

Q. What has that got to do with "the cream of the business" we are talking about?—A. Well, it all tends to drive the farmer away from the Canadian Farm Loan Board.

Q. I have a little difficulty in following you.—A. I think, sir, you have to understand the farmer's approach to this particular problem of farm credit. I think we all have to realize this, that there has always been a hesitancy on the part of most farmers to use existing sources of credit such as the banks. Farmers hesitate even to apply for credit money and anything that stands in their way—although they may need the money—tends to drive them in the direction of the easiest door to which they can find entrance. It is just part of a farmer's make-up.

Q. Reverting again to this assertion that the board takes the cream of the business—you are not asserting or implying that the Canadian Farm Loan Board refuses business which they ought to be taking?—A. No, I do not think they actually refuse business.

By Mr. Fraser (Peterborough):

Q. I have one or two questions which I would like to ask. On page 6 of the brief it says:

"In this connection, it should be kept in mind that to give special low interest rates to young farmers may be, in part, self defeating because of the tendency such low rates would have to increase the demand for farms and push up land values."

Now, in the recommendations in paragraph 4 (a) you say the length of the repayment period should be extended to 40 years. Does not one proposition contradict the other?—A. We are recommending no special concessions at all to young farmers in this particular brief. We are recommending a general policy for all farmers which, we think, would be of benefit to the entire industry.

Q. Still, you would give a young farmer 40 years in which to repay?—A. Oh yes.

Q. You mentioned some time ago that the "red tape" of the form was driving people away from farm board loans to other sources of money. Do you mean by that that you think, or feel, that the Canadian Farm Loan Board has too much "red tape" connected with the application?—A. Let me put it this way: I think I am right in stating that the majority of farm credit is held by local individuals, retired farmers and people of that sort—local gentlemen who know the details of the individuals and of the particular transactions in which they are engaged. They are thought of in terms of "old Bob down the road" and it is easier for a farmer to borrow money from a source of credit of this kind, although he may have to pay a little more for it. A farmer just goes along and talks with an individual who says: "Okay, I agree to lend you so much money." On the other hand you have this rather involved form of application presented by the Canadian Farm Loan Board wanting to know how many fillings you have in your teeth, and so on, and whether they are gold or silver.

Q. You mentioned that the farmer has an objection to things of that sort; would you not say that the average individual, no matter whether he is a farmer or not, would have a similar reaction?—A. I cannot answer that because I am not an average individual; I happen to be a farmer. I say I don't like it. The average individual can answer for himself.

Q. That is a really good answer.

I have just one other question. You mentioned that on account of "red tape" and one thing and another a farmer might prefer to go to a private individual, such as a retired farmer, in order to raise a loan even though he would

have to pay a little more. Is not that source drying up now owing to the fact that the majority of these retired farmers are putting their money in stocks, common or preferred?—A. That might have happened quite recently, sir, but I will say that up until the past three or four years—

Q. That is what I mean—in the last four or five years?—A. I cannot answer that question accurately sir. It would only be a guess.

Q. That is all.

By Mr. Huffman:

Q. I would like to refer to page 6 and make an observation, Mr. Chairman. It is stated on page 6:

It should also be kept in mind that to give special low interest rates to young farmers may be, in part, self-defeating because of the tendency such low rates would have to increase the demands for farms and push up land values.

Then, on the following page, you suggest that if the Canadian Farm Loan Board were to extend its operation the board should be able to reduce its present interest by at least one and a half per cent.

Then again, in your recommendation at paragraph 4 (d) you say this:

Reduce the interest rate charged on first mortgage loans from five per cent to the cost of the money plus the legal reserve, leaving administration costs to be borne by the government.

I was just wondering what you consider to be of more importance to the borrower—the reduction of the interest rate or the observation which you make here that if the interest rate were reduced appreciably no great benefit would result, on account of the increased land values.—A. I think we are taking two things into consideration there. I think I tried earlier to explain what we had in mind in paragraph 6, which refers to young farmers. We are making no special recommendation here insofar as the young farmer starting to farm is concerned. The whole thing is based on the ability of farmers to repay. We have tried to show that the average interest on capital is roughly around three and a half per cent across Canada. I think, with regard to the other interest rates mentioned on page 7 of our statement, we say:

In all, the board should be able to reduce its present rate of interest by at least one and a half per cent.

This would bring the rate of interest down to, roughly, three and a half per cent.

With regard to the recommendation made in subparagraph (d) I think the explanation has been given in the paragraph just referred to. We surmise that by a more aggressive loan policy on the part of the Canadian Farm Loan Board and by the government absorbing the cost of administration it would be possible to reduce the present interest rate from five per cent by one and a half per cent to three and a half per cent.

Q. There is one other question I would like to ask: was there a period, recently, when agriculture returns were, in terms of percentage, ahead of industry and labour—on the basis of 1925-1929?—A. No. I think the figure might have been slightly above the average in 1951. Mr. Hope would have to answer that question; I am sorry that we cannot, apparently, call him in. But I think it was in 1951 and only in that year that the agricultural rates achieved parity.

The CHAIRMAN: Gentlemen, there is another meeting set for 3.30 this afternoon, and Mr. Macdonnell has a few remarks to make on this.

Mr. MACDONNELL (*Greenwood*): Thank you, Mr. Chairman, I would like to raise a question which I raised at the steering committee but did not press at that time. Is it necessary at this early stage of our committee meetings to sit

twice a day? I would urge that it is not necessary, particularly while the budget debate is on. We could, perhaps, defer holding afternoon sessions without taking up the time of the committee in a long discussion, and in order to sound out the feeling of members I propose to move to that effect.

I feel, myself, that attendance in the House of Commons during the budget debate is something which I, personally, feel desirable; I suppose I had better be honest and tell the committee that I think my own leader is speaking this afternoon and that I should like to be there on that occasion. Also, I believe, Dr. Hope lives in Ottawa and I imagine he would not be too greatly inconvenienced by attending on another occasion.

I therefore move that the committee do not sit this afternoon or, let me put it this way:

I move that committee sittings be held only in the morning today, and until the chairman brings the matter to the notice of the committee again.

This would be done according to your own judgment, Mr. Chairman, if you felt we were lagging behind and the pressure of business justified it.

The CHAIRMAN: I feel that right now, of course, but members of the committee have heard the motion. Is there any seconder?

Mr. CRESTOHL: I think the request is very logical and I would be pleased to second the motion.

Mr. CARRICK: May I ask whether the committee is through questioning Mr. Brodrick as a witness?

The CHAIRMAN: There are no further questions on my list.

Mr. BALCOM: Could we ask additional questions if we sit this afternoon?

Mr. ARGUE: I can understand the need to speed things up as much as possible as I can see some need for holding two meetings today, let us say, and two meetings on Thursday if the committee's sittings are to be confined to Tuesdays and Thursdays. I am going to support the motion, but I can also say that as far as I am concerned I think the committee could meet on a Monday and also on a Friday.

The CHAIRMAN: Except for this fact—that there are a great many members of the committee who are away on Mondays and Fridays.

Mr. ARGUE: We might reduce the quorum and so adjust the matter.

The CHAIRMAN: There are no further questions down here, but we are not exactly through with the witness. I think it is time we moved on with this bill; if we do not get it through the House of Commons and into the Senate we will not get it into operation this year.

Mr. HENDERSON: We should remember that Dr. Hope has come up here to give evidence and that we have set the hearing for today. There are probably others who are involved, and I think it is unfair that they should be asked to stay over.

Mr. CHARLTON: I think it was understood that Mr. Brodrick would not be asked any further questions and that Dr. Hope would carry on.

The CHAIRMAN: I may say that Mr. Brodrick's home is in St. Catharines.

Mr. QUELCH: If the witness lives outside of Ottawa and would have to come back, then we should have a meeting this afternoon.

Mr. CHARLTON: I think it was understood that Mr. Brodrick was not to be asked any more questions and that Dr. Hope would carry on.

The CHAIRMAN: Unless anyone else has any further questions—Mr. Brodrick's home is in St. Catharines. Dr. Hope, I believe, lives here.

Mr. CRESTOHL: Could we not sit tomorrow morning?

The CHAIRMAN: Yes, but let us sit today and get the bill through so it can get into force. It is "stall", "stall", "stall", all the time. We want to get the bill through the House of Commons and into the Senate so it can be implemented, and so that the people can borrow money.

Mr. ARGUE: And we want to get a better bill. This bill is not good enough.

The CHAIRMAN: I know you do. Mr. Argue is not going to get a better bill.

Mr. ARGUE: Then no one will get a better bill. That is just more insolence.

Mr. CARRICK: I think we ought to consider the convenience of the witnesses as well as the convenience of the members of the committee.

Mr. ARGUE: There is a good explanation now of why the chairman did not want witnesses heard at all.

The CHAIRMAN: You get them here and then you do not want to hear them.

Mr. CHARLTON: Are there any other witnesses from outside of the city to be heard today?

The CHAIRMAN: As far as I know there are none.

Mr. HOLLINGWORTH: Perhaps you would ask the committee if anyone else wants to question the witness, and, if not, I would be willing to wait until tomorrow. Otherwise we should sit this afternoon.

The CHAIRMAN: If anyone wants to ask any more questions of the witness, the witness is here. I do not want any more suggestions that we are stifling examinations of witnesses and that we do not want to hear representatives from agriculture. Does anyone want to question this witness?

Mr. MACDONNELL (*Greenwood*): I imagine Mr. Brodrick would not think it unreasonable, if there were a dozen of us whose convenience would be helped by not sitting this afternoon, and perhaps we could sit right on now.

Mr. ARGUE: The question.

The CHAIRMAN: You have heard the motion. The motion is that we do not sit this afternoon, and that the next meeting be held at the call of the chair.

All those in favour?

Mr. CARRICK: Is the motion that we do not sit this afternoon?

Mr. ARGUE: Could that motion be read?

Mr. MACEACHEN: Is it clear that Mr. Broderick is finished?

The CHAIRMAN: That is my understanding. The motion is that we do not sit this afternoon, and, as I understand it, that the next meeting will be at the call of the chair.

All those in favour of the motion?

Agreed.

The CHAIRMAN: I declare the motion carried.

APRIL 11, 1956,
11.00 a.m.

The CHAIRMAN: Gentlemen, we have a quorum and I suggest we begin.

The first witness who will be appearing before you today is Dr. Hope, the Economist of the Canadian Federation of Agriculture. I will ask Dr. Hope to come forward now and give his views. Immediately afterwards, he will be available for questioning by members of the committee. If members have questions to ask I would appreciate it if they would reserve their questions until Dr. Hope's preliminary work is done; perhaps they would also indicate their names to me and I will keep a list in order of their requests.

Dr. E. C. Hope, Economist, Canadian Federation of Agriculture, called.

The WITNESS: Mr. Chairman and gentlemen, I consider it a privilege to be here today to add what I can to the remarks Mr. Brodrick made yesterday on behalf of the Canadian Federation of Agriculture on this very important subject of long term farm credit.

I think I might begin by answering a couple of questions which were put to Mr. Brodrick yesterday and to which he did not have the answer at that time. One question put to him was this: why do we take the period 1926-1954 as a basis for our analysis of probable long term net earnings of agriculture in Canada? I did the work, so I guess I can answer the question. The Department of Agriculture—or rather the D.B.S.—publishes net income figures for Canadian farms only with regard to the period since 1926, and therefore we took the longest possible period we could, namely the period from 1926 to date. We had no other motive than that of seeing the long term result of farming in Canada. 1954 was the last year for which official figures are available for Canadian agriculture.

The next question asked was what would the net income situation be—or the net earnings picture—for the last five years? Using the same method of calculation as appears in the table in our brief, I worked out yesterday afternoon that for the five years 1950-1954 inclusive the average farm operator would receive $3\frac{1}{2}$ per cent on his average capital, and the average capital for that period reported by D.B.S. worked out to \$15,457. I may say, of course, that D.B.S. does not work out the average per farm. They give the total figure and we have to divide that by the estimated number of farms in Canada. That is how we get the figure of \$15,457 as the average farm capital for that period. In addition to the $3\frac{1}{2}$ per cent earned on that investment the farmer received hired hand's wages, which for that period amounted to \$1,391, plus a bonus, as it were, of 68 per cent above that. Members of the committee will recall that the table in the brief showed that over a long period the farmer apparently received a $3\frac{1}{2}$ per cent return on his average farm capital, hired man's wages for his own work and an average bonus of 30 per cent more than a hired man's wages. For the five years I have been quoting, that bonus was 68 per cent. I might add also, Mr. Chairman, that I believe the five year period from 1950-1954 is probably, on the average, one of the best periods. So in one of the best periods, the farmer has received this return on his investment: hired man's wages plus 68 per cent, which also covers returns for labour from his family who help with the work, because family help is not included.

There may be other questions, the answers to which Mr. Brodrick was not clear on and which I have forgotten. However, some member of the committee may raise them, in which case I will attempt to answer. The questions I have answered, Mr. Chairman, are the two I picked out.

The CHAIRMAN: Mr. Johnson, you had a question to ask.

By Mr. Johnson (Kindersley):

Q. Dr. Hope, do you feel that in the Canadian economy at the present time while we are in a period of population transition, and when in many cases sons are taking over their fathers' farms, there is a need for specific consideration being given to establishing young farmers in Canada agriculture?—A. Yes, I think there is. It is not so much that we need it any more now than, say, 20 years ago; we have always needed it, and this transition is always taking place, but I think the difficulties of making the switch today are greater than they used to be. I refer now to a time some years ago when this country was in horse farming. A young man could start farming by buying a team of horses and some horse equipment, and it was not a very expensive

process. He might even buy four horses with the usual equipment, and then he could start farming. Today he cannot start by getting a team of horses; he has to buy a small tractor which represents quite an investment—this power machinery is more expensive, relative to the work it will do, than machines worked by horses. In addition, he can no longer keep his machines moving by raising oats and hay as he used to do. A farmer used to “raise his gasoline” but now he has to get credit for gas and power repairs. Thus he finds himself in the kind of economy where more initial capital is required to get started. This does not, of course, necessarily represent long term loans alone, but it does involve intermediate loans, and it all represents capital. Then again, operating expenses are greater than they were. A farmer today should fertilize his land; he did not 30 years ago. That means either raising a loan with which to buy fertilizer, or credit from the dealer. It is, you will see, a cash economy in which a man is starting out, and thus it presents more difficulties than it did in the past.

We investigated this problem because we realized from letters received in our office and statements made at our conferences and meetings across Canada that the demand for measures to help a young man get established is increasing.

Q. Recognizing that need, Dr. Hope, does the present Canadian Farm Loan legislation give any assistance to young farmers, and what suggestions would you have on behalf of the Federation for improving the Canadian Farm Loan Board, possibly on the basis of what they are doing in other countries toward the satisfaction of that need?—A. I would not be surprised if the Canadian Farm Loan Board today does help a certain number of young farmers to get established. We have, of course, no record from the annual reports.

Q. But the conservative policy which Mr. Brodrick drew attention to....

Mr. FLEMING: Be careful with that word “conservative”.

By Mr. Johnson (Kindersley):

Q. I put quotation marks on that. Dr. Hope, do you not think that the policy to which Mr. Brodrick drew attention would work with disadvantage against a newly established farmer?—A. Oh yes, because most borrowers in agriculture tend to be over-optimistic and probably most lenders tend to be over-pessimistic. That is fairly typical, and people who have made studies of this problem in the United States have found that the biggest trouble facing those who start out farming is that they often assume too heavy an annual charge. The present Canadian Farm Loan Board charges a rate of 5 per cent which, amortized, comes to $7\frac{1}{4}$ per cent, which is a fairly heavy annual charge, and from what we can see, as we analyzed it in our brief, the younger man in such a set-up requires a very high amount of capital, perhaps \$6,000 or \$7,000 in order to get started because this is 5 per cent on a 25 year term.

We therefore tried to work out a plan whereby any young man who had, say, \$4,000, could start. I admit we tried to get it down to that figure. We, in the Federation of Agriculture, do not think that young men in agriculture should have something handed to them—we do feel that they have got to prove themselves, and one of the ways of proving themselves is to save some money. At least the father should realize that the boy is helping on the farm and give him an equity or something. With around \$4,000 initial capital, if the farm loan period were lengthened to 40 years, and the interest rate lowered, then we believe that a young fellow with about \$4,000 could start. That is quite a sum of money, even today, \$4,000, unless you are in industry; and with a young fellow working at farm wages it would take some years to accumulate \$4,000. In six or seven years he could just about do it. That fact has been recognized

throughout the world in the last ten to fifteen years, in practically all countries—in every country I have looked at; they have been lengthening the terms of long-term mortgages, from 25 now, up to 40 years; and the Quebec Farm Loan Act has 39 years. The Farm Credit Administration in the United States has 33 years terms.

There is a special branch of lending down there called the Farm Home Administration, and it provides a 40 year loan. The purpose is to reduce the annual payments so that he will require less equity to start. I cannot see that it makes the loan any weaker particularly, by doing it.

A question was raised yesterday about security and interest rates when a retired farmer lends money to a neighbour—and, by the way, in Canada about one half of the farms are financed that way. It is a risky proposition because the loan is to one farmer, with one type of farming, in one district, and the rates are high, from 6 to 6½ per cent. The Canadian Farm Loan Board lends on all types of farming in all the provinces, to average farmers of all grades. Therefore I suggest that the risk venture of the Canadian Farm Loan Board is far less risky than any individual lending to a farmer, to a single farmer, because the security of the entire agricultural economy should be and is behind the system.

Therefore that is why we feel that the rate should be lower than five per cent, if you have any faith at all in agriculture, in total, from coast to coast in the different provinces and in different types of farming. Now to continue along a line that was discussed yesterday. The Farm Economics branch of the Ontario Department of Agriculture made a very complete survey of mortgage indebtedness in eight counties of Ontario, and they published their report a few years ago. This report deals with eight counties scattered right across Ontario. They made a very methodical search of the titles and the mortgages on those farms from 1900 to 1950. There were 733 farms. I shall just quote two things of interest.

They found that out of 733 farms in Ontario, this sample, 8 per cent of those farms were always mortgaged for fifty years and were never free. They found that 14 per cent were mortgaged from 41 to 48 years; 14 per cent were mortgaged from 33 to 40 years; 17 per cent were mortgaged from 25 to 32 years; 16 per cent were mortgaged from 17 to 24 years; 13 per cent were mortgaged from 9 to 16 years; 12 per cent were mortgaged from 1 to 8 years, and only 6 per cent were never mortgaged.

Moreover, they found that 50 per cent of the mortgages given in those 50 years came from individuals who were not the sellers of the farms, while 33 per cent came from sellers of the farms, that is the men who sold the farms and quit farming. Nine per cent came from loan companies and institutions; 4 per cent came from family mortgages; 3 per cent came from governments, and 1 per cent came from the Veteran's Land Act, and the soldiers settlement.

Institutions have virtually withdrawn from the mortgage field in Canada. For different reasons, they have withdrawn. Now we have to realize farmers can only borrow from individuals and the Canadian Farm Loan Board, and in the province of Quebec they also have the Quebec Provincial Farm Loan Board; and in Nova Scotia they have a provincial board; but apparently the farmers in Nova Scotia are not particularly satisfied with their provincial Farm Loan Board, because they have only last month appointed a Royal Commission to investigate the farm mortgage situation, or something like that—in the province of Nova Scotia.

Therefore, coming back to the young man again; this problem is going to increase and not decrease, because agriculture is not yet fully mechanized. In some provinces like Quebec and New Brunswick where they are not yet very highly mechanized, but they will eventually become more mechanized, and there will be more difficulty in getting sufficient capital to start. It will require

more capital than now. The operating costs will need more cash as time goes on, and we will have more complaints of young men not able to get started.

We approached this and said, "what can we do about it?" Some people advocate supervised loans, and we looked at that pretty carefully. But we recognize the fact that the supervised loan is costly. The Soldier Settlement Board supervises, probably, three-quarters of the loans in all. I imagine that if we looked at the cost of that supervision we would find that it is quite costly for the taxpayers of Canada. However they are doing a good job.

The Farm Home Administration in the United States, which I talked about for a moment, lends money to farmers, to young men and to older farmers, who are not in a credit position to borrow from any other agency, either a private institution or from the Farm Credit Administration; they are not eligible; and the Farm Home Improvement Association then, or system, will lend up to 100 per cent of the appraised value of those farms at 4 per cent for 40 year terms.

Every county has an administrator and three farmers who form an advisory committee to the administrator. Their funds come directly from the United States Treasury each year by a straight direct grant. All those loans are supervised by highly trained individuals, men fully qualified, men experienced in farming and experienced in farm management and home planning, because, before those loans are given to that kind of people who need guidance. A very complete analysis is made of the farming operation, the home set-up, the budget for the coming year, and for the future years. And then the man is visited pretty frequently to see how the plan is coming along.

Now they claim they are doing a good job with that type of people, but it is costly. The Americans consider it to be worth while. We did not advocate that the Canadian Farm Loan Board should step right into that field, as much as that, and I will say this, that when we went to our annual meeting last February and presented the policy committee's report on long term credit, we had no reference whatever to supervised loans.

Immediately we were attacked by our members, people getting up here and there, "That is wrong. Young men should have some advice, guidance". We told them that the committee had studied this, and had come to the conclusion that it is pretty costly. Therefore, we had left it out. They insisted we put it back in again; so you will notice in our recommendations, which came right from our farmer members themselves, who said that if the young man is going to get a loan for 40 years at a low interest rate and up to as high as 80 per cent on the appraised value of his farm, then they felt that he should accept supervision. So, therefore we put in our recommendation that the loan should be supervised when considered necessary by the Farm Loan Board.

By Mr. Johnston (Bow River):

Q. What is the meaning of that word "supervision"?—A. This is my conception of supervision, when a young man applies for a loan, he has not got much money, we will say. Therefore it is not a big loan, and you are going to lend him up to the maximum, we recommend, 80 per cent on the appraised value of the farm. We realize it is quite high and so the risk is a little greater. Therefore he accepts supervision of this kind. The supervisor sits down with him, plans the farm operations for the coming year or so, writes down what kind of crops are going to be grown, what stock is going to be on the farm, what are the anticipated yields from crops and animals, what are the anticipated expenses and revenue. The young farmer must show the supervisor how there will be enough net revenue to service that loan after a moderate living allowance.

Q. Are these supervisors agricultural experts?—A. Yes. After the plan is drawn up, the man will be visited—how frequently, I don't know. It would depend upon the quality of the young farmer. Maybe once a month, maybe every three months, but he would certainly be contacted a few times during the year to see how he is coming along. That is where the cost comes in. These men, the supervisors, have to be well trained men with good judgment. Under the Soldiers Settlement Board and the Veterans Land Act, all their men are of that nature. They train them well, and I believe they are pretty well qualified for that kind of work.

By Mr. Fleming:

Q. How, in a country as large as the United States, do they achieve any satisfactory measure of uniformity of supervision in the approach of the supervisors to the financial aspects of the work of supervisors?—A. It is based upon the county. They take a sort of county average, and they try—their whole program is based upon the county average situation, expected yields, and so on.

I do not quite get your question, Mr. Fleming. I may have missed the exact import of it. Would you make it more specific?

Q. I think you answered it in a large part. It is a matter of concern as to some measure of uniformity in a country as large as the United States, under the system of supervision such as you describe on a supervised loan, to make sure there is some effective approach to uniformity.—A. It is largely county type farming, and the county experience of county yields, and the county office is quite familiar with the local conditions there. Each individual, as I understand it, is related to the type of farming, the kind of farming, in that county. The supervisor and the three farmers who advise the supervisor and also pass the loan, probably in most cases would know the individual farmer. I am told that even down there some farms are turned down, even under that plan. They are probably turned down chiefly because they are on submarginal land. You see, there is always a danger under a plan like that that you might tend to keep farmers on obviously submarginal farms.

By Mr. Michener:

Q. I would like to ask at this point, if I may, about these loans which run as high as 100 per cent. I think you referred to them as the—A. The farm home improvement loans.

Q. Farm home improvement loans. They would be exceptional loans, I suppose and would not come to very much. Have you any idea of the proportion of loans on farms, from public funds, that run as high as 100 per cent?—A. No, I am sorry. I have not got that. I am sorry I have not got the exact figures. If I had known, I might have brought them with me.

Q. It would be interesting if we could see—A. Three per cent of the total loans.

Q. The total farm loans in the United States, of public funds?—A. Yes.

Q. And how are they divided up among these three different schemes that you mentioned?—A. Three per cent of the total loans, Mr. Chester said.

By Mr. Johnston (Bow River):

Q. I am sure we are all grateful to Dr. Hope for having made such an efficient study the farm loans, and for the information he has given us here. Do you happen to have information with regard to deterioration, say in the last few years?—A. Now, up to 1953 the loans were being satisfactorily serviced.

Q. The loans were quite small?—A. Yes. But I have not knowledge about 1954 and 1955, but economic conditions had deteriorated a little bit. Maybe they had some trouble then, but in most cases they carried them to this extent,

as the administration would not force a good farmer out. The administration is there for building people and building farms. They are patient and they work with the farmer. Unless the man is a complete dud they will just help him along as far as they can.

Now, we have hoped that the Canadian Farm Loan Board would give a somewhat similar kind of assistance in special cases—not as extreme as I have pointed out, but something which would be of service, of real service to you men starting out.

Now we have about \$4½ billion worth of land in Canada, an agricultural value on farm land—about \$4½ billion. I do not know but I think the Canadian Farm Loan Board has got about \$40,000,000 worth of loans out, and they loan about \$7 million or \$8 million a year. Now I do not want to be critical of Mr. Chester, or my friends over on the right here, but I know you want a frank statement. The Federation has examined this situation and we feel that maybe it is the legislation—let us put the blame on legislation. In view of the fact that the institutions have withdrawn from the farm mortgage field, we are left with the Canadian Farm Loan Board and the private individual, and this agency is not assuming enough of the responsibility to service agriculture in a big way. Maybe I am wrong, but Mr. Chester will correct me on this; the cost of administration of these loans probably runs about 1½ per cent.

Mr. CHESTER: 1·39 per cent.

The WITNESS: I thought it was roughly 1½ per cent, the last time I looked at it. Now, down in the States a few years ago they had a loan scheme there, under the old farm credit administration where the loan had to be made to the farmers at not more than one per cent above the cost of the borrowed money. We thought that if this Canadian Farm Loan Board legislation could be adapted in such a way so that it could go all out and solicit loans just as a business would, then it would be doing a much greater service for agriculture. It would mean they would not wait back for some people to apply to them for loans, but that they would be competing with other people who are lending money at 6 per cent and 6½ per cent, and they would show the farmers what their terms are. We feel they would double their business, they would double the number of loans, and double the size of the loans. That is to say, instead of the average loan amounting to about \$3,500 it would go up to \$5,000 or \$6,000. We feel that in such a way the cost of lending would be lowered a great deal and probably it would come down to one per cent and so the Board would be of real service to agriculture. This would mean a broadening of the outlook of the Canadian Farm Loan Board.

For instance, my guess would be that a great deal of the increase of the business of the Canadian Farm Loan Board in the last two or three years has been in the refinancing of loans where farmers have got into default under the Farm Improvement Loans Act. Is that correct?

Mr. CHESTER: I have not got the figures here.

The WITNESS: I think it will be found that many of the loans under the Farm Improvement Loans Act have gone into arrears, for farm machinery and so on, and they have been re-financed by the Canadian Farm Loan Board.

By Mr. Argue:

Q. Is it the suggestion that they should be encouraged to do that? That would be a very bad move.—A. It is due partly to the fact that the farm improvement loans are for too short a term, only for three years for farm machinery, for instance.

By Mr. Johnson (Kindersley):

Q. The figures you gave on the need for loans in Ontario will doubtless be duplicated in other provinces. That seems to me to point out one of the

important problems with which agriculture is being confronted today, particularly when, as Mr. Brodrick pointed out, it is a depressed industry. Have you any estimate as to the relationship of undercapitalization of farms to the efficiency of a farm? Undoubtedly, if a farm is undercapitalized, it will tend to be inefficient?—A. I see your point. To a certain extent it is largely a matter of intermediate credit. The undercapitalized farm, as a rule, means a farm undercapitalized in productive equipment or productive livestock. It might be undercapitalized also in terms of size or area.

Q. That is the point to which I was referring, the insufficiency of land.—A. The percentage of such farms would be small. It is a question of judgment as to what is an adequate size. In the case of Quebec, a man might be very satisfied with a 50-acre farm, whereas in Ontario the same type of man would say the farm is too small. It is a regional question.

Q. You will be familiar with the assessment setup in Saskatchewan and the situation in relation to the Canadian Farm Loan Board in the appraisals of land. Do you feel that in Saskatchewan the assessment would be a valuable factor to keep in consideration in making an appraisal of a farm?—A. Yes. I would say it would be a very valuable factor to keep in consideration and to use as a check. The system of rural farm assessments in Saskatchewan is very good, probably the best in Canada. Actually, they do not assess buildings; the assessment is only on the land and is based on the productive value of the land, with respect to the market situation and so on. In Saskatchewan, the relative position or value of farms with respect to each other all over the province is very good, due to the different bench marks. That is to say, unless one changes the base, it would be related, say, to a certain price for wheat. The likelihood now is that it may be basically a little low because of that but, on the other hand, in relation one to another probably it is quite all right.

Q. If there were someone working as an appraiser and he took the assessed value into consideration, rather than appraisal, would you commend him for that?—A. I would have that on my book and I would look at it. We have been talking about interest rates and long term rates, and also about the length of the term and the percentage of the loan on the appraised value. All these things are important but the key thing is appraisal, which is a most difficult thing to do. One can use certain semi-scientific methods of appraisal, I suppose, but after all it comes down to a matter of judgment or good basic opinion, a matter of your basic judgment. The Farm Credit Administration has struggled with that problem for years, as to the method of correct farm appraisal. Prior to 1930, in the United States they were pretty well appraising farms all over by sale value. Then came the depression and, of course, they were caught badly. The Farm Credit Administration then moved into the field in the middle 1930's and it was the first institution to do two important things. First, it gave a 25 or a 30 year amortized payment, which private mortgage companies were not doing, and that eased the burden on the farmer. Secondly, they also eased the burden on the farmer in terms of the basis of long-term productive values. Of course, in the 1930's, that basis of long-term productive values would raise the appraisal value considerably above the sale value. That helped to give the farmer a break, with respect to credit at that time. They have held that policy fairly well ever since then. They have been trying to appraise the farm on what they consider to be the long-term productive value. However, as the price level rises, they have been lagging behind the price level, of course. It may be—I do not know—that the Canadian Farm Loan Board is doing the same thing. We have no knowledge as to how they appraise farms. If they attempt the same thing, they also may be lagging behind, and that tends to give a very low appraisal value. That may

be the reason why their loans are so small. That may be the reason why so few farms can be serviced—if their appraisals are so low.

On the other hand, I can see their problem. None of us can predict the price level, and we do not like sale value alone as a sound basis of appraisal.

By Mr. Carrick:

Q. What about the value of assessment in Saskatchewan?—A. I do not know; in other provinces assessments vary from county to county, with no special basis. The assessors are not trained.

By Mr. Johnson (Kindersley):

Q. In relation to the statements just made, did you feel that a technical qualification—for example, a Bachelor of Science in agriculture—would be most desirable for an appraiser of the value of land?—A. It would be all right provided the particular B.S.A. came from a farm and provided that, after he got the B.S.A., he went through an intensive training in appraisal work.

Q. You say it is scientific work?—A. Yes, it is professional work.

By Mr. Charlton:

Q. Dr. Hope will agree that the greatest danger to agriculture in Canada today is the fact that so many young farmers are leaving the farms. It is a fact also that the C.H.M.C. activities result in a young man becoming discouraged on a farm. You find a young chap who, with 10 per cent down—which could be borrowed money—can build himself a home under C.H.M.C. and work in industry. Do you consider that one of the greatest factors in draining agriculture of young farmers across the country?—A. You mean to say the fact that a young man may leave the farm and go to the city and build a house on a 10 per cent loan—that is one reason why he leaves the farm?

Q. Yes. That is a factor.—A. Yes, it is a factor; but it is rather small. I admit you can build a home on very easy terms. Somebody has faith in non-agricultural pursuits, perhaps more faith than in agriculture, because you can, as you say, build a home on very low rates and assume that you can always get a salary, a steady income. In agriculture they do not figure on a steady income apparently. I cannot answer it any better than that.

The CHAIRMAN: I think your 10 per cent is a little bit out, Mr. Charlton.

Mr. CHARLTON: No.

The CHAIRMAN: It is 90 per cent up to \$7,000 or \$8,000.

Mr. CHARLTON: You can still build a home for 10 per cent.

The CHAIRMAN: What kind of a home?

Mr. CHARLTON: Better than the homes which a lot of farmers live in.

By Mr. Charlton:

Q. Would it be fair to ask your comment on the fact that this being one of the greatest factors in agriculture in Canada, would the present amendments as suggested in the Canadian Farm Loan Board achieve what we are after in trying to keep younger men on the farms? Would it bring that about?—A. Of the two amendments that deal directly with that point, one is the raising of the maximum from \$10,000 to \$15,000; and the other is raising the percentage of the loan on the appraised value from 60 to 65 per cent. They are both in the direction of assisting what we have in mind; but I would say it is a very, very small step, extending the loan from 60 to 65 per cent. Actually the \$5,000 raise is probably of no help to the young man anyway—not the \$5,000 part. The young man starting a farm is probably going to be a small borrower

anyway. A \$10,000 loan to this young fellow would probably be plenty, so the raising of the maximum by \$5,000 does not help him there. The only thing which may help him is reducing his equity 5 per cent to get him started. It has not tackled the basic thing, which is reducing the annual payment.

Q. Lengthening out the period?—A. Yes; reducing the annual payment is the key thing. You can pick up any kind of literature you want, published by the Farm Credit Office—and they publish lots of them—on young men starting farming, and they always point out that the annual payment is the thing. The point is, if you want to make it reasonably small, you have to lengthen it to 40 years and try to get the interest rate down. This amendment does not touch the length of period or the interest rate. Another feature which it does not touch is this question of the prepayment of loans.

We have recommended a system whereby a man would be encouraged to make his normal payment in a good year, and an additional payment into a fund on which he would draw interest. Every time there is a good crop he puts more money into that fund and draws interest. When a poor crop comes along he is paid up-to-date because the money comes out of the fund which he has put into. This is an amendment which was brought into effect in the United States two years ago on the F.C.A., that can be put into this act with no harm to anybody; but it would not be of much use unless the administration of the Canadian Farm Loan Board brought it to the attention of farmers and pressed them to take advantage of it in good times.

Q. In your opinion the extension of the loaning period is one of the most important factors?—A. Very important.

Q. Would you say the interest rate decrease would be of next importance, or supervision of the loans?—A. I do not stress supervision too much; it is difficult. If we stress supervision—it is true that the Federation has asked for it—that is Federation policy and I cannot step beyond their policy. But I recognize if we are going to ask for supervised loans then you are going to have to change a lot of the administration of the Canadian Farm Loan Board. There will be a big change made. You have got to have more highly trained inspectors, inspectors more highly qualified, and schools for them, because the system would stand or fall, depending upon the appraiser and supervisor who visits the farm. It would depend upon how good the man is who visits the farmer, how practical is he, is he going to be kicked out the door by the farmer's wife, and is he going to be well trained, intelligent; they are hard to find. Some day, however, we may have to have this type of man.

Q. In your opinion would local farmers in certain districts concerned, that is practical farmers who may have retired or farmers whose farming operations may not carry them the full time, who may have some time which they could spend in this sort of work, be suitable as appraisers? Do you feel they would be adequate to take on the job as appraisers under the existing Canadian Farm Loan Act?—A. I think they would be adequate as appraisers provided they were given additional training. I would say you cannot pick up a farmer—I do not care how practical he is—and send him out to appraise a farm. There are a lot of things to take into consideration. If he is an intelligent farmer he would of course pick up the information you want him to use very rapidly. I would not underwrite him because he is not a B.S.A.; but it is partly a question of training him and having a policy fixed as to the basis of appraisal.

Q. I thought probably the local touch there with an appraiser would have a certain amount of value because he would not have to make so much outside inquiry as to the productivity of a farm as someone coming in there.—A. That is partly why we recommend advisory committees. It is a thing which was in the act and never used. We thought that the advisory committee of farmers

within a given region would probably know the surrounding territory, and in many cases may happen to know the farmer personally, and could be of assistance and help.

Q. Would it be possible to use one or all three of the members of that advisory committee as part-time appraisers and then they could get together to talk over the situation?—A. We had in mind operating farmers who would not have the time to go and work appraising farms.

Q. Not full-time, but part-time.—A. They might.

Q. In your opinion is there any established formula for appraising the productivity of a farm?—A. Well, there is no recognized formula that all agricultural economists or land economics experts would agree on as being the formula. There are a number of systems. I do not know whether I should take the time to explain them. But there are a number of systems of appraisal. One of the common methods is the capitalized net earnings method, where you attempt to get, say in Ontario, the rental value of the farm lands at so much per acre—say \$4 an acre; and you subtract off that the rent the landlord pays—or rather subtract the taxes the landlord pays, and get a net figure of \$2 an acre after taxes, and you capitalize that by dividing by a 5 per cent interest rate which would give you \$40 an acre value of land. That is a fairly common check. Out west they do not take the cash rental; they take a share of the crop and they take the taxes off that and any other expenses paid by the landlord; they value the landlord's share of the crop at a certain price and capitalize that again by dividing by a certain interest rate; but then there is the argument of what interest rate to use; if you use a 3 or 4 per cent rate you get a different answer to your farm value. Economists have argued for long periods as to what should be the proper capitalization rate to divide by. Then, you have the other method of sale value—the long term average sale value for the district, with adjustments. There are a lot of different methods, and no method is perfect. I think that if I were appraising a farm I would use three or four methods, look them all over and find what seemed in my judgment or opinion gives the best overall picture for safe loaning; I would work out more than one calculation, because nothing is perfect.

Q. Did I understand you to say a few moments ago, Dr. Hope, that there were several farm improvement loans being paid off by the process of transferring the loans to the Canadian Farm Loan Board? Have you definite information on that?—A. No, you would have to find that out definitely from the Board, but I was told by a number of farmers out west that when things got bad out there a year or so ago, and they could not pay their farm improvement loans, they took out loans from the Canadian Farm Loan Board, to refinance their farm improved loans, to avoid falling into arrears in the payment of farm improvement loans at the bank. Some of that has been done.

Q. That would point, perhaps, to difficulties in the working of the Farm Improvement Loans Act, would it not?—A. It would point to the fact that maybe a three year term of repayment on farm machinery is a little short, sometimes. After all, farm machinery will last a lot longer than three years.

Mr. HUFFMAN: That is all. Thank you.

By Mr. Tucker:

Q. I was very interested in your Federation brief at page 6, Dr. Hope, in which you say:

Various provinces (Quebec, Ontario, Nova Scotia, New Brunswick) have special legislation for providing credit to young men, in ways

suitable to the provinces' special situations. On a national basis, it is doubtful that any special lending plan or lending agency is required to deal with men starting in to farm.

I ask you about that, Dr. Hope, because I have often wondered why, in the province of Saskatchewan, they entirely withdrew from the farm loan field on a provincial basis. I take it from your brief that you consider this was an improper action to take in the light of the experience of Quebec, Ontario, Nova Scotia and New Brunswick. I wonder if you would comment on what contribution has been made on a provincial basis in those provinces and tell us what you think in regard to the provinces which are not in that field?—A. First of all, Mr. Tucker, I will say that the wider the lending area, or the basis of a credit agency, the less the risk amounts to. A national organization is in the position of operating at less risk than a provincial one, especially with respect to western Canada. For instance, the Saskatchewan Loan Board were lending in one province subject to high variations of yields and prices, and that is probably one of the reasons why they could not function satisfactorily. It is true that in a province such as Quebec or Ontario that is not such an important factor, and that incomes do not vary so much. Ontario at one time was in the farm loan field, but they withdrew as Saskatchewan did. I think Alberta was also in that field but later withdrew. I am not sure what was the reason for Ontario withdrawing. Quebec has an act which is quite generous—a provincial act that makes loans at the present time of, I believe up to \$7,000 at an interest rate of only $2\frac{1}{2}$ per cent repayable over 39 years. I understand that they have done a lot to help Quebec farmers and to establish young men in that province. Farming there is already, I think, what might be called a subsidized industry. I am not sure what the Nova Scotia terms are now. Ontario came back into the lending field about two years ago with an act to assist young farmers, and that province will help young farmers up to the age of 35 years under a scheme which provides for loans up to 75 per cent of the appraised value of the land for, I think, 25 years. The provincial government was under great pressure from the farmers to do something to help the younger men, but I am not qualified to say just how successful that act in Ontario has been. I do not think it has been used a great deal.

I am not very keen about provincial acts. I cannot see why we should not treat this question in a national way under an arrangement whereby we could get money a little cheaper and spread the risk over the entire agricultural economy for every type of farming.

Q. I took it from the brief, Dr. Hope, that you are differentiating between ordinary lending and this problem of helping a young fellow to get started. I thought, from the brief your organization presented, that it considered that this was a matter for the provinces rather than one to be tackled by endeavouring to set up an over-all farm loan plan.—A. I do not think so. Where could you read that, Mr. Tucker?

Q. It says on page 6 of your brief:

"On a national basis, it is doubtful that any special lending plan or lending agency is required to deal with men starting into farm."

A. Yes.

Q. And this is based upon the fact that these other provinces mentioned have special legislation for providing credit to young men—legislation suited to the special circumstances of the particular provinces. I took it from the brief that you thought this was a special problem and that the provinces should give some attention to it. I gather from what you said that Quebec has done so, though, of course, conditions vary from province to province.

I also find this on page 4 of your brief:

Junior Farmer Loans in Ontario and Land Settlement Board loans in New Brunswick and Nova Scotia were of considerable importance (as is the Quebec Farm Credit Act).

That was the opinion given—that these junior farmer loans in Nova Scotia and New Brunswick were of considerable importance. I took it from that that all these provinces were making some attempt to deal with this question of helping young farmers to get started, and I also took it that your organization was in agreement with that view. Now I understand from you that they are not.—A. No, they are not in agreement with that view. It is, of course, obvious that in provinces where these schemes exist, when inquiries are made the answer will be given that they are used quite a lot. The other provinces where schemes do not exist were, of course, not be mentioned.

We were thinking of whether or not there needed to be special federal legislation to assist young men as distinct from other farmers, and we finally said: no. If we take loans from 60 to 80 per cent of the appraised value—smaller loans which will be the loans to young farmers, up to 80% of the appraised value—and make them 40 year loans; then the young man could come in very successfully under that arrangement. On the other hand, the large loan—the \$20,000 loan—is only 60 per cent of the appraised value of the land, so the young man would probably fall not into this category but into the category of the small loan. So we figured that the situation would be covered, and that we would not need any special legislation provided for young farmers providing—and always providing—the period of repayment is 40 years.

Q. Did not the organization face the fact that if the provinces of Ontario and Quebec, containing the majority of the people of Canada, are dealing with this problem, we in western Canada might find it difficult to say: “we do not ask our provinces to do anything; we want the federal government to deal with this”? Did your organization not face that fact that when the provinces of Ontario and Quebec are handling it there must be some tendency to feel that the other provinces should at least attempt to enter that field and so something about it?—A. No, because the Ontario Federation of Agriculture is strongly in favour of what we have put forward here. They don't look upon their legislation as the achievement of the millenium. The scheme they have now does not cover people over the age of 35, for instance.

Q. You said earlier that great pressure was placed on the Ontario government to do something about this problem. Do I take it that your organization played no part in exercising that pressure?—A. The Ontario branch of the Federation likely did, some years ago.

Q. You say you do not feel the provinces should give attention to this matter?—A. I do not know that I would say that particularly. It is just a matter of whether this question should be dealt with on a provincial basis or on a federal basis. I do not know, but certainly I feel that a national loan agency has less risk attached to it than a provincial one, and if one of the great problems facing agriculture is to get these interest rates down as low as possible, then it is clear that the security on loans raised by the federal government is greater and the avenues available to them for raising the money are better, with a consequent desirable effect on interest rates for farm loans.

Q. It appears that the Quebec government has managed its provincial loan scheme very well.—A. Oh yes, they subsidize heavily. I think that in Quebec anybody who is qualified can get loans. The scheme is not just for young men only.

Q. Do you know how much they have lent out in Quebec?—A. Very large sums. I cannot recall the exact amount.

Mr. BENIDICKSON: I have the figures here for Ontario, if members would like to have them.

Mr. TUCKER: I would be interested in hearing them.

Mr. BENIDICKSON: I am reading from the report presented this year. It says that:

Since the setting up of the Junior Farmer Establishment Loan Corporation in 1952, the Government has made 1,569 loans totalling almost \$10,300,000. Last year 460 applications for loans totalling more than \$3,200,000 were approved and this year the Government plans to increase the maximum amount which may be outstanding at any time under the act from \$10,000,000 to \$20,000,000.

By Mr. Tucker:

Q. Have you got similar figures in regard to New Brunswick and Nova Scotia?—A. No, I have not got them here.

Q. I have one other question.—A. Generally speaking, Mr. Tucker, most provinces have withdrawn from the field, although some have come back to some extent.

Q. Do you not think there would be more of a tendency for them to come back now Ontario and Quebec are dealing with the matter, because they make up the majority of the people of Canada, and if those provinces are ready to assume that obligation, the majority of the people of Canada would feel that other provinces should do something along that line? Do you not think that would be the result?—A. I do not think that any of the three western provinces will ever come back into the provincial farm loan field. They have lost money heavily and they cannot get enough security. I do not think that Saskatchewan ever will, or Manitoba.

Q. Are you under the impression that the Saskatchewan Farm Loan Board lost any large sum of money? Have you got the figures?—A. They did lose money, a lot of money!

Q. I would be surprised if the amount was very much.

Mr. ARGUE: It was \$7.5 million over 18 years, and they quit lending money in Saskatchewan at the end of 1935.

By Mr. Tucker:

Q. Yes. That took in the period of the great depression which hit Saskatchewan on account of crop failure and low prices harder than any other province.—A. And they would not lend money when farmers needed it.

Q. If they did not lend money, it would be hard to understand how they had the losses they had.—A. There were two things; they lost money on the loans that they had put out, and when it came to the depression the hard pressed farmers of Saskatchewan had no money, and they could not raise a bond issue to do any refinancing.

Q. Do you think they are likely to have the same experience as in the 30's again, which caused the provincial governments to have the difficulties that they had?—A. You will likely have the same low yield.

Q. But there are moneys coming into the province in other ways such as family allowances....

Mr. ARGUE: You cannot run a farm on family allowances.

By Mr. Tucker:

Q. If \$20 million comes into our province in the way of family allowances, and another \$20 million in the way of old age pensions, and another \$30

million in the way of federal grants to assist the province in financing that will make a big difference. Is it not a fact, for example, that there is more money coming in in grants from the federal government than the entire provincial budget in 1944? Don't you think that if two provinces give more adequate financing and help in this field, then the other provinces would accept it as a proper field for provincial action, and they would take some interest in these matters?—All I can say is this; I cannot speak for any provincial government; but my own feeling is that the experience they have had in the past out west in farm loans is such that they won't go into it again.

Q. You feel that they have done good work in Quebec and Ontario, but there would be no hope from asking the western provinces to enter into this field?—A. As far as Quebec is concerned they have done good work there because obviously, it is a highly subsidized interest rate. That is one reason. But as far as Ontario is concerned, I heard grumblings a year ago that the provincial loaning agency was not getting into the field as well as they could to help young farmers, even under the provincial act. In spite of those figures which were quoted. I did hear definitely that the act was not servicing the farms as well as it could. That was two years ago. Whether they have become more generous and loosened up since then I do not know.

Q. I suppose that one of the reasons, Dr. Hope, why there has been pressure to some extent on the Farm Improvement Loan angle is the desire of the Bank of Canada to have the banks curtail the extension of credit, to curtail the present movement in Canada. Has your organization made any representations that there should be some way sought whereby the banks or the Bank of Canada differentiate between certain regions and certain industries in regard to putting on pressure to curtail credit? In other words, while it might be desirable to curtail credit in areas where there is inflationary movement it is very undesirable in the agricultural industry as a whole, and, I would think, quite particularly in areas where it has been difficult to market crops. Has your organization made any representations that there should be a very real attempt made to have the banks understand that this deflationary policy should not be applied to the same extent over the whole of Canada, but should be applied, if possible, where it is needed, where there is inflationary movement, and that it should not be applied in areas where there is no inflationary movement? Has your organization made any representations like that?—A. No, we have not, but I would agree with you 100 per cent. I thought of it just lately. In fact, in our brief to the Royal Commission we have one small section on inflation, and it might be of interest to you to read it, if you have not read it yet. We segregated the agricultural index from the non-agricultural index, and we showed the striking rise since 1947 in the non-agriculture sector of Canadian prices. January of this year was higher than the peak of Korea, which was supposed to be the period of post-war inflation. At the present time the agricultural index is higher than in 1951, and the agriculture price index is away down. We pointed out that such a continuous rise was really an indication of inflation, and that the public of Canada really did not recognize it yet because it was offset by the non-agricultural index being down in terms of cost of food. We thought that in a year or so "the worm would turn" and agricultural prices would rise, and when they rose, you would really feel the effect of inflation. That is as far as we have gone to date in the question of inflation. I agree with you that when you have one sector of the economy, like agriculture, down, and the other sector of the economy is up, if you are going to offset inflationary tendencies—that credit curtailment should not be applied to the sector that is down. It may need credit leniency, although not necessarily expansion of credit. If you have faith in Canada, in our agriculture, that is

what we should do. But we have not gone to the Bank of Canada or any branch of the government in respect to the immediate credit situation. In all fairness, because I think to date we have not really been able to say that the credit agencies are tightening up on us. We have not had any real complaint yet, but it might come.

Q. From what you said about the farm improvement loan question, I would think too that the banks might be inclined to carry these loans, and not to press for repayment; but if they are being pressed now to curtail their credit they may feel they must apply this all along the line. I think the time has come when we should urge that consideration be given to what I have just suggested, that there should be certain places where this curtailment of credit should definitely not be applied, because it will make things worse instead of improving them. I wondered if your organization was prepared to join in urging that, if it was possible at all?

The CHAIRMAN: Are you finished, Mr. Tucker?

Mr. TUCKER: Yes.

The CHAIRMAN: Mr. Argue.

Mr. ARGUE: My first statement is to agree with the one made by Mr. Tucker wherein he emphasized the need to approach cautiously, any raising of the interest rates as a credit restriction policy. We are arguing this morning, at least some are, that the 5 per cent interest rate under this legislation should be less. Now, what bothers me is that the 5 per cent may not be held. I am all for the 3½; but with the credit restrictions and the increase in bank discount rates and so on, is the 5 per cent statutory in this provision we discussed?

The CHAIRMAN: No, the interest rates are set by the board, Mr. Argue, and have varied from time to time.

By Mr. Argue:

Q. Well, have you, Dr. Hope, made any representation at any time to the board to suggest not only a lowering of the rates, but also that the rates be held,—at least held?—A. No, we have not.

The CHAIRMAN: I think there is one thing that is very interesting: You have made history this morning when you agreed with Mr. Tucker.

Mr. ARGUE: Well, I am going to unmake history fairly soon.

Mr. TUCKER: I am glad you emphasized that. I could scarcely believe my ears, Mr. Chairman.

Mr. ARGUE: I have been looking at the experiences set forth by Mr. Chester in relation to losses of the Canadian Farm Loan Board, and while, of course, a great part of their loans are still outstanding, I see their statement on page two reads that they have made loans of over \$100 million. The actual loss sustained by the board since its inception totals \$717,000. That is a very creditable experience, I would suggest. It is less than one per cent, a loss of less than one per cent of the loans they have now made. I notice on the other hand that the experience with the Saskatchewan Farm Loan Board in relation to the loss was that the total loans were \$17.2 million, and the total loss there to the end of 1950 amounted to \$7.4 million, or about 43 per cent.

Mr. BENEDICKSON: What are you reading from there?

By Mr. Argue:

Q. I am reading from the province of Saskatchewan's Royal Commission on Agriculture and Rural Life, No. 3, page 53. My question is, do these statistics confirm to you, Dr. Hope, a suggestion that you have made that, with regard to certain of the prairie provinces, the thought of any substantial loans by

provincial agencies on farms is pretty well out of the question?—A. Yes. I think the fluctuations of income are so great in Saskatchewan that it is very difficult for a provincial farm loan scheme to function, unless it has tremendous resources behind it; but it is very difficult because of this violent fluctuation of income. Apparently the province has the willingness but not the strength.

Q. It further states here that the last loans were made at the end of 1935, which means they have been out of business for some 21 years?—A. I might say that when in Saskatchewan my experience was that the Saskatchewan Farm Loan Board loans, a very high percentage were on very poor soil, some of the poorest land in Saskatchewan that I visited. I am referring to lands that are classed as No. 1 and No. 2 in the Saskatchewan land classification map. I think they were at Mortlach, and Chaplin and all through there.

Mr. Tucker: They followed that policy through so that they actually could expect to lose money. They loaned in the cases where they felt a farmer should be given some credit and could not get it through the ordinary companies. So it would be expected that they would have some losses, I would think.

By Mr. Argue:

Q. Well, Dr. Hope, there have been a great many statements made in this committee by various people that one of the difficulties in the administration of the Canadian Farm Loan Board is the amount of "red tape", it has been called, in applying for a loan and getting the application processed. That has been stated to be the delay in many applications. Have you some concrete suggestions as to how this red tape may be cut and how the applications process may be speeded up?—A. I would have to ask Mr. Chester. Is it true that the applications for loans which are received in the provinces are sent to Ottawa for final review and approval?

Mr. CHESTER: Yes.

The WITNESS: If there were a regional director with a staff there, in whom one could have confidence—and one would not have him there otherwise—surely that office should have the authority to approve a loan without having to go back to Ottawa and have it examined, and then perhaps have it sent to Saskatchewan again? I do not know how many times it may come back; it may be once or twice.

By Mr. Argue:

Q. It always goes at least once?—A. Yes. Mr. Chester has said that it goes at least once. Sometimes it goes twice because of incorrect statements.

Mr. CHESTER: That would be very seldom.

The WITNESS: If the regional office were staffed with competent people in whom one had confidence, why could the business not be done as it is done in a bank? It would be a very large bank loan before the central office would be asked for approval. The local bank manager has authority to approve a loan. That is only one point and there may be others. I do not know a lot about Farm Loan Board administration, and do not feel competent to criticize, except in regard to that one little point, which could be examined.

By Mr. Argue:

Q. To me, at any rate, it is astounding to learn that before a loan may be made the question has to be put to Ottawa. The banks would not be in business at all if the local branch manager had not certain authority to approve, certainly the great bulk of the applications for loans. Certainly that is in regard to the great bulk of them.

The CHAIRMAN: Do you mean in numbers or in dollars?

Mr. ARGUE: The applications for loans do not have to go to the head office.
Mr. GOUR (*Russell*): Loans under \$5,000.

By Mr. Argue:

One could get a loan approved in a few hours. It should not take days, weeks or months, going back and forth to Ottawa—for what reason, I do not know. I cannot see how people down here would expect to know more about an application than the technical people on the spot in the province where the application is made. That is certainly something which this committee could consider dealing with, in regard to making a recommendation. The witness is acquainted with Saskatchewan, and I am acquainted with Saskatchewan, and it is pretty hard to ask questions about provinces with which I am not well acquainted. With your experience in the appraisal field and your knowledge of agriculture generally, do you think it should be possible—at least, in certain instances—for an appraisal to be made in a short time on a certain application, even if that time were mid-winter? Supposing that some morning you were in Saskatchewan and wanted to buy a farm. If you read in the *Leader-Post* or in the *Star-Phoenix* that a certain parcel of land would be up for sale on the 1st of January at a certain price and if after one glance at the advertisement you thought it looked attractive and if you wanted to make some enquiries, do you think it might be possible that you could make the necessary enquiries, look at the records, check the piece of land, and talk to people in the community, if necessary, in order to be able to say you could make the purchase immediately, instead of waiting until the snow goes off the land, in which case someone else may come along to look for it?—A. As far as Saskatchewan is concerned, because of the very excellent soil survey which we have and our very excellent economic land classification work, many of the farms could be appraised in wintertime. In the vast body of land around the Regina plains the soil is mighty uniform, and also in the case of large chunks of it, around Melfort and Rosetown. If the farm is in the middle of a very big portion of such clay land, for instance, there is no reason why it could not be appraised in wintertime.

The section of the act which says that a farm must be appraised only when the snow is not on the land is a section which was put in many years ago, before there were soil surveys in Canada. At that time there were some bad blunders, when they had to appraise the soil “with a lantern”. That was done many years ago. That section was put into the act to cover that point and it was a good thing then. However, in the light of modern knowledge, there are some places where the board, through its authority, surely should have power to waive that in certain cases, to speed up the process.

Q. When you look at the assessment records of a given piece of land in Saskatchewan, you can learn almost as much from those records and reports as you could learn sometimes if you farmed the piece of land yourself. The records are very detailed and the maps are excellent and all you have to find out in addition is whether the land is loaded with wild oats and other bad weeds, or to what extent there may have been soil erosion in the last few years. Let us take the summer conditions. If someone makes application for a loan, we know that it takes sometimes six months to make the appraisal. What would you suggest would be a reasonable length of time, to make an appraisal if you had a highly efficient staff, that is, for looking at a piece of land which was up for sale, where the owner was red-hot to sell?—A. I am not an official appraiser. I have seen how they work and I have had some experience of it. I would say that a qualified appraiser could go out on to a farm, starting in the morning, and in one day he could do all the necessary field work on that farm and finish his work out on the farm in that one day.

He might require another day or two days after that, to assemble certain basic information as to the farms around the area. However, if he is an appraiser working in a certain territory, a large amount of that basic data has been accumulated. He already knows the rainfall record, he has the yield record and he knows the distance from markets. He has all that information in his book.

Therefore, the actual appraisal should not take more than two or three days at the outside, even allowing for filling in his reports. Of course, it may be that he could not get there for some time. He may be busy doing something else. I am referring to the length of time when he gets there.

Q. There is a lot of work in processing the actual sale itself. I am no lawyer and do not understand what is involved at that stage. However, after the appraiser has said the land is worth a certain amount of money that a certain sum of money can be loaned on it, and if the two parties prepared to make a deal, is it not possible to have a deposit laid down and certain guarantees and other considerations entered into to make the deal binding?—A. I would say it could be done very rapidly, I believe the institutions in the United States which lend money can make fairly speedy appraisals.

I would like to say this about the annual report of the Canadian Farm Loan Board. I am not criticizing Mr. Chester particularly, or his staff, as apparently this has been the traditional method of turning out this particular report. This has been its form over the years. It is probably a good annual report from the point of view of finance, giving the amount of mortgage, the loans, and so on. However, from the point of view of the general public, trying to see what is going on in the board, it is a blank wall. We do not know the number of appraisals, what provinces they are in, the number of farms appraised, what the cost of appraisal is, how many loans have been turned down, what percentage of loans are turned down because the farmer cannot qualify, what percentage are turned down because the farmer is asking too big a loan, what is the difference between the average appraiser's value and what the farmer thinks the farm is worth. All these things that, in my opinion would be very useful in an analysis of the operations of a public body.

The answer might be that such work would take staff. My answer again would be that it would be very useful information for the board itself to possess. The board is handicapped today, I would say. Mr. Chester may have a different opinion, but I doubt if the board has a real research staff today. I believe it has not got a research staff as we know it. It would be a very useful additional expenditure of public money to ensure that the board had a qualified research staff, especially if we are about to expand its operations as we hope to expand them.

Q. I certainly agree with that statement and I think it would help the farmers, particularly in purchasing land, to make a good many purchases which now must be lost, in the ordinary course of events. Is it your opinion that, owing to this long delay, in many instances many of those who would like to use the facilities of the Canadian Farm Loan Board are unable to use them, and that the land is grabbed by someone else—or to prevent that happening the individual must go to some private lending institution where he can get the money in short order, so as to make the purchase? Is it the case that if he has to wait six months, someone else gets the land?—A. I am not really sure that very many farmers know of the services which the board can provide. Mr. Chester, do you advertise your facilities?

Mr. CHESTER: Yes.

The WITNESS: I am told that some farmers do not even know what the rate is.

By Mr. Argue:

Q. I think it is fair to say that the information about the board's activities, in the hands of potential applicants, is much less than in the case of the knowledge about the Farm Loan Improvement Act, through the banks.—A. Of course many branch banks help that system.

Q. You have suggested that the board was under-staffed, that they should have a greater staff, and you have made a number of suggestions. It occurs to me that perhaps one of the reasons why the board is not as efficient as we would like to see it is because the board is in essence attempting to do a job for agriculture but is working through the administration of the Department of Finance. It would seem to me if the board were working under the Department of Agriculture it probably would have access to certain technical people in the department perhaps more readily than transferring from one department to another. I suggest the people who know most about making loans on farm land are not necessarily the financial people but are the agriculturalists. Have you given any thought to the proposition that the Canadian Farm Loan Board should be in the Department of Agriculture rather than in the Department of Finance?—A. No. I have not given any thought to that. I am not too familiar with the staff of the Canadian Farm Loan Board except that I do know some years ago—20 years ago now at least—one of my former students, now at Washington, a Saskatchewan graduate and an agricultural economist, approached the former administration of the Canadian Farm Loan Board with the idea of setting up a research branch in agricultural economics within the Canadian Farm Loan Board. Negotiations went on for some time, but finally the matter was dropped. Now he has a very influential position in Washington. The Farm Credit organization there has a very big research organization. Almost every department of government in Ottawa seems to have some experts attached to its staff; the Bank of Canada has an agricultural economist, the Department of External Affairs has some, and the Department of Trade and Commerce, and the Department of Agriculture; all these different branches have their own little staffs. The Canadian Farm Loan Board staff do a \$7 million or \$8 million job and could do more; and they have to go to these departments to get information instead of having their own staff.

I think that perhaps you could get the very thing you are thinking of without transferring it to the Department of Agriculture; keep it where it is, provided you can build up a staff of agricultural economists on that staff who would then have close liaison with all the agricultural branches they would need to keep them in touch with what is going on—I do not say they do not keep in touch now; they probably do know what is going on now. It would be an advantage to have some agricultural economists who would work with the board. If the loans of the Canadian Farm Loan Board get larger it would be a great help to the board to have these economists.

Q. Have you any idea of the average interest rate on land mortgages being taken out now—not those made by the Canadian Farm Loan Board which is 5 per cent—by other mortgage companies and individual lenders, which Mr. Brodrick spoke of, and so on?—A. I do not know except that I do know there are two types, I think personal-friend loans and close-relative loans, which are sometimes loaned at 4 and 5 per cent; but there are a lot of others running around 6 and 6½ per cent.

Q. And with mortgage companies too?—A. As to a mortgage company my guess would be they would not be less than 6 per cent. I do not think there are many lending at the present time.

Q. I know as long ago as 1951 some companies had their rate up to 6½ per cent, and my offhand guess would be probably that it is now up to around

7 per cent—I do not know that for certain. You made a statement earlier that the value of the farm land in Canada was about \$4 billion or \$5 billion. Mr. Chester said the Canadian Farm Loan Board has out about \$40 million. In my calculation that means that the Canadian Farm Loan Board has loaned 1/10 of 1 per cent against the values of farm land, or for every \$1,000 of farm land the Canadian Farm Loan Board has \$1 out on loan. You made the suggestion you would like to see the loans doubled. I am wondering if doubling would begin to do the job which you have in mind for agriculture? If you did double the \$40 million over a period of a few years for this particular program would it accomplish much in the way of the objective you have set forth? I know it is a good thing, but I am suggesting you can raise your sights higher than double.—A. Doubling of the total loans, combined with higher loans would certainly reduce the loans from the private lenders, and to that extent farm loans would be more of a competitive field than it is now. Private lenders, if they are going to continue to lend at all, might have to cut down their rates a little or else lend money in the cities, and its effects might spread. But one of the basic troubles with private lending is that they will not give an amortized loan. A typical private loan is for 5 years and a few for 7 years. Then, the balance all comes due and payable at the end of the 5 years and has to be renewed, and when it is renewed there are legal costs.

Q. If you accomplish your objective of reducing the loaning rate from 5 to 3½ per cent would that have the effect of driving out private funds, and if that objective were obtained the \$40 million would have to be increased many times.—A. Yes. If we ever got it as low as we are asking, the private individual would simply be lending his money in the cities. He would not lend in the country at 3½ per cent; a few might lend still in the country at 4 per cent.

Mr. TUCKER: Mr. Argue, I think you are a little bit out. It is not 1/10 of 1 per cent but 1 per cent.

Mr. ARGUE: I could be mistaken but I do not think I am. If I am mistaken I stand corrected.

The CHAIRMAN: I thought it was 1 per cent, but I thought I must be wrong.

Mr. ARGUE: I stand corrected. Even 1 dollar in 100 is still a pretty conservative lending rate and does suggest to me they might get it up 5 per cent, five times the amount of the loans now made. You want the interest rate down to 3½ per cent, and I take it the main reason you want that rate is that you do not think that agriculture can pay any higher rate, and that the farm family would have a better chance to live and pay off the loan?—A. Yes.

Q. Certain figures were put in the record which were very disturbing, such as the level of farm family income. It shows an industry which needs new legislation and new improvements if we want to change the farm family level from what it was in the last 29 years. Then, there were figures for a 5-year period from 1950 to 1954. I am wondering if you would care to give us your considered estimate of what the net farm income position may be in the coming 5 years as related to the last 5 years? In other words, can we reasonably expect with all present trends to hold the present level of economic prosperity for agriculture as we have had in the last 5 years?—A. That is rather a tall order, but I would say this, that net income in 1955 and 1956 is lower than the average of those 5 years undoubtedly. My guess would be in 1957, 1958 and 1959 it will gradually crawl up slightly, and therefore the average of 5 years from 1955 to 1960, although a little better than right now, will still be lower than the average of those previous 5 years. Historically agriculture does not stay low for a very long period provided we have an improvement in the rest of the economy. In the 1930's it lasted longer than

4 or 5 years because the whole economy was down, but as long as we maintain the present level of income of people in non-agricultural pursuits I think agriculture will crawl out of its present position slowly.

Q. That assumes a standard amount of production?—A. Assumes normal yields and production. It is partly based on cattle; the prices of cattle are low and will stay low for a few years, and then crawl upward; hogs are low today, and in a couple of years will be better. You can figure on agriculture picking up provided general economic activity is maintained.

Mr. Chairman, I understand the committee is about to adjourn. Could I make a one-minute summary?

The CHAIRMAN: Yes. There is one thing I would like to say first. There are a number of persons who would like to ask questions. This committee is sitting at 11 o'clock tomorrow morning. Would it be possible for you to make yourself available then?

The WITNESS: Yes, Mr. Chairman, as long as it is not too long. I am on very pressing work and almost should not be here; but we consider this legislation very important and it is not too often that we have an opportunity to talk to a committee of the house on farm credit. I do not know what good I can do for the farmers, but if I thought I could help to modify even the present bill a little bit in the direction in which we would like it to go, then I would certainly be willing to come back as long as it is not for too long.

The CHAIRMAN: I would not say that we could promise that the bill be modified.

Mr. TUCKER: May I say, Mr. Chairman, that I will not be able to be here this afternoon.

Mr. ARGUE: We are not sitting this afternoon.

Mr. TUCKER: I should have also said tomorrow morning. I feel I should say to Dr. Hope that I think this is a very splendid brief which the Canadian Federation of Agriculture has presented to us and speaking for myself only, I would like to express appreciation to the Canadian Federation of Agriculture for the brief and to Dr. Hope for the very clear explanations that he has given of their views on this subject—views which I think should be most helpful, not only to us but to the government.

The CHAIRMAN: I think we all agree in that.

Mr. CARRICK: I may say, also, that I shall not be here tomorrow, Mr. Chairman, and I would like to ask one question.

Dr. Hope you mentioned at one time your belief that the provincial governments which do not provide farm loans now are not likely to go back into that field. As you know, the British North America Act provides that responsibility for agriculture rests both with the provinces and with the federal government. I would like to ask you this: are there likely to be losses in the future as great as those which have been sustained in the past, and, if this is not likely, is it not true that the provinces which do not re-enter the loan field may be accused of shirking their responsibilities by placing those responsibilities on the federal government?

Mr. ARGUE: Mr. Tucker asked that question twelve times.

Mr. CARRICK: I would like to have my question answered by Dr. Hope.

The WITNESS: It is a good question. I will admit frankly that the policy committee and the directors did not go into that phase or aspect of the matter; we did not discuss it and in those circumstances anything I say has nothing to do with Federation policy but is a purely personal view.

With respect to long term future losses, I do not think that in the next 20 years, with the knowledge we have now both of agriculture and in the running of the whole economy, losses in lending to farmers would be as great

as we experienced in the thirties. On the other hand I do not know that that statement necessarily means that provinces should take over, because what we are trying to arrive at is, as I said before, the lowest possible interest rate, and that is based upon two things: the cost of the money you borrow and the risks involved in lending it. The federal government, with its power and strength on both scores, is in a position to borrow money at a lower rate of interest. Also, because the loans are spread across Canada by one agency, with all agriculture behind it, not just one province or one type of farm, the risk element would be less. Looking at those two factors we believe that a federal institution would be able to service agriculture and get a rate a little lower than any province could possibly quote over a period of years.

Mr. GOUR (*Russell*): I cannot be here tomorrow either, Mr. Chairman, and there is just one question I want to ask. If the government decides to put the interest rate at 4 per cent, and if there are losses that the board has to suffer—losses by way of administration costs and losses on mortgages—do you not think, Dr. Hope, that they should be carried fifty-fifty by federal and provincial governments? Would you not consider that in the provinces which do not wish to share in the 50 per cent loss, if any, there should be an interest rate of 5 per cent?

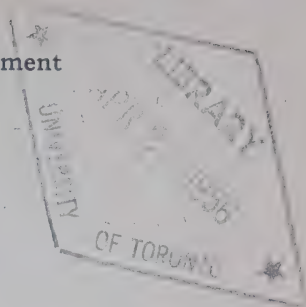
The WITNESS: That is a new one. I never thought of that.

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Canada Banking and Commerce
Standing Cttee on 1956

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956



STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

Bill 84

An Act to amend the Canadian Farm Loan Act

THURSDAY, APRIL 12, 1956

WITNESS:

Dr. E. C. Hope, Economist, Canadian Federation of Agriculture

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,

and Messrs.

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| Argue | Fraser (<i>Peterborough</i>) | Monteith |
| Ashbourne | Fraser (<i>St. John's East</i>) | Nickle |
| Balcom | Fulton | Pallett |
| Benidickson | Gour (<i>Russell</i>) | Philpott |
| Bennett (<i>Grey North</i>) | Hanna | Power (<i>Quebec South</i>) |
| Blackmore | Henderson | Quelch |
| Bryson | Hollingworth | Richardson |
| Cameron (<i>Nanaimo</i>) | Huffman | Robichaud |
| Cannon | Johnson (<i>Kindersley</i>) | Rouleau |
| Carrick | Johnston (<i>Bow River</i>) | St. Laurent (<i>Temis-</i> |
| Charlton | Macdonnell (<i>Green-</i> | <i>couata</i>) |
| Crestohl | <i>wood</i>) | Thatcher |
| Enfield | MacEachen | Tucker |
| Eudes | Macnaughton | Valois |
| Fairey | Matheson | Viau |
| Fleming | Michener | Vincent |
| Follwell | Mitchell (<i>London</i>) | Weaver |

Eric H. Jones,
Clerk of the Committee.

ORDER OF REFERENCE

WEDNESDAY, April 11, 1956.

Ordered,—That the name of Mr. Enfield be substituted for that of Mr. Hellyer on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

THURSDAY, April 12, 1956.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Argue, Balcom, Benidickson, Blackmore, Bryson, Cameron (*Nanaimo*), Charlton, Crestohl, Fairey, Follwell, Fraser (*Peterborough*), Henderson, Huffman, Hunter, Johnson (*Kindersley*), Macdonnell (*Greenwood*), Michener, Pallett, Quelch, St. Laurent (*Temiscouata*), Viau and Weaver.

In attendance: Dr. E. C. Hope, Economist, Canadian Federation of Agriculture; and Messrs. F. L. Chester, Commissioner; E. O. Bertrand, Member; W. A. Reeve, Secretary; and R. McIntosh, Chief Accountant; all of the Canadian Farm Loan Board.

The Committee continued its consideration of Bill 84, An Act to amend the Canadian Farm Loan Act.

Dr. Hope continued his remarks on long-term farm credit and was questioned thereon. He emphasized certain of the recommendations contained in the brief of the Canadian Federation of Agriculture; and was retired.

It was ordered that certain briefs from representative farm organizations, which had been distributed to the Committee at the commencement of the sitting, be printed as appendices to this day's Minutes of Proceedings and Evidence, viz.,

| | |
|--|---------------------|
| Interprovincial Farm Union Council | <i>Appendix "A"</i> |
| Alberta Sugar Beet Growers, Lethbridge, Alta. | <i>Appendix "B"</i> |
| Eastern Irrigation District, Brooks, Alta. | <i>Appendix "C"</i> |
| Lethbridge Central Feeders Association Limited, Lethbridge, Alta. | <i>Appendix "D"</i> |

At 12.50 o'clock p.m., the Committee adjourned until 11.00 o'clock a.m. on Tuesday, April 17, 1956.

Eric C. Jones,
Clerk of the Committee.

EVIDENCE

APRIL 12, 1956
11.00 a.m.

The CHAIRMAN: Gentlemen, we have a quorum.

Dr. Hope has some information which he has obtained overnight and I thought we should start off by having him give that information to us.

Dr. E. C. Hope, Economist, Canadian Federation of Agriculture, called.

The WITNESS: Mr. Chairman, I thought it might be of interest to the committee to know what the amortization payment would be on farm loans with certain interest rates over a 40-year period. The present Canadian Farm Loan Board operations are based upon a 25-year term at 5 per cent, which means that the annual charge for servicing that loan is 7.25 per cent of the loan, interest and principal combined; an equal annual payment of 7.25 per cent of the original loan. Now, if you have a loan at 3.5 per cent for 40 years, the equal annual payment is 4.68 per cent per annum for 40 years. A 4 per cent loan for 40 years is 5.05 per cent per annum. A 4.5 per cent loan for 40 years is 5.43 per cent per annum. A 5 per cent loan for 40 years amounts to 5.83 per cent per annum. These calculations, by the way, were obtained this morning from the actuarial branch of the Department of Agriculture, specifically from Mr. Fletcher.

Now, there is one more observation. I have before me the report of the Canadian Farm Loan Board for 1954,—the year ending March 31, 1954. On page 10 we have a statement of the income and expense for the year ending March 31, 1954. They have been lending money at 5 per cent on most of their loans, so I tried to make a rough calculation of what financial standing they would show for that year if they had loaned money at $4\frac{1}{2}$ per cent; so, I took their interest on mortgage and reduced it $\frac{1}{2}$ of 1 per cent, by $\frac{1}{2}$. It indicates the net income from interest instead of being \$648,000 would be \$343,000.

By Mr. Michener:

Q. Excuse me. Dr. Hope, do you mean $\frac{1}{2}$ or $1/10$?—A. The interest rate was 5 per cent and I assumed it at $4\frac{1}{2}$ per cent.

Q. That would be a reduction of 1 in 10?—A. Yes. I was wrong about that when I took $\frac{1}{2}$ off. That would be 4 per cent.

Q. Yes.—A. That is correct—4 per cent. Then, reducing it down to 4 per cent—I am glad you brought that to my attention—that reduces the interest earnings \$305,000 for the year which would give them a net loss of \$147,000 for the year. They show a net profit of \$157,000. Lending at 4 per cent would have shown a net loss of \$147,000. You see, our contention has been that with a much greater volume of business, the rate could be much lower, as the 4 per cent rate shows only a \$147,000 loss.

Mr. MACDONNELL (*Greenwood*): Mr. Chairman, does Dr. Hope mean that if there was an expected increase of business then that loss which he has indicated would be lower?

The WITNESS: It would be either lower or zero, no loss. The present volume of business is relatively small. Of course, this institution is set up as a profit-making institution. We conceive of the Canadian Farm Loan Board as really

a service institution, not for the purpose of making a profit. I believe under the amendment it will be changed; but after setting up the legal reserves, as I understand it, a certain amount goes back into the treasury. Would it be true then, Mr. Chairman, to say that the profit motive has been removed from the board by the proposed legislation?

The CHAIRMAN: The truth would be that instead of building up the larger reserve which they have they will only have reserves as set forth in the amendment. Previously they had larger reserves than they were compelled to have under the act.

The WITNESS: But after the legal reserves are met they pay income tax.

The CHAIRMAN: They pay income tax.

The WITNESS: It still operates as a profit institution.

By Mr. Michener:

Q. You do not advocate that it should be operated at a loss, do you?—A. No. But I would suggest this: if it is going to be a service institution over a time you can either have a profit institution which is supposed to show a profit or service at cost.

Q. I do not take it to be your position that it should be subsidized each year out of the public funds and operated at a loss?—A. Well, our federation did say that the money should be loaned at cost.

Q. That is a different thing. If you are trying to operate at cost, you may be in the red one year and up the next, but over the years you would break even.—A. Yes.

Q. A reduction to 4 per cent, in the example you gave, would necessitate a loss?—A. Yes, on the basis of the present volume of business.

Q. You do not advocate that we plan to have an annual loss in the future?—A. No.

By Mr. Argue:

Q. Your brief also suggests that the administration costs should be borne by the treasury.—A. Yes.

Q. Which is another way of saying it should be a permanent subsidy or payment from the treasury for the operation of the board, namely for administration?—A. Yes.

Q. Do you think that Canadian government policy, if it were along the lines you suggest paying the administration costs and providing a certain element of subsidy even though small, can be justified in relating that policy to the type of agricultural policies which may be in force in other highly industrialized or advanced countries?—A. Yes. I think I can. We have claimed that agriculture is a low earning industry—and this is partly a social problem as well as an economic one. I think there are advantages in having a reasonably stable agricultural economy over a period of years, and an agricultural industry which is not too small. We are slowly becoming a little bit less important segment of the economy all the time. Maybe the time will have to come when we will take a good look at agriculture and say how is it going, is it good policy to have agriculture becoming a gradually dwindling percentage of the total economy; should we go down and down until we are 90 per cent industrial and 10 per cent agricultural; is it a good thing in the long run for the economy? To that extent, then, if you believe you are liable in the long run to have a relative decline—to a very small percentage of the total economy—then you might say that a subsidy of some nature in administration costs might be something which would be in the national interest. That

is the attitude we have taken. We do not say specifically how low agriculture should go in its relative position to the total economy; but we feel the time will come when Canada will take a look and decide it has gone far enough.

Mr. MACDONNELL (*Greenwood*): Mr. Chairman, could I ask this question. I notice, Dr. Hope, you said, speaking of the board, "It was set up as a profit-making institution". Do you mean by that, that that was the deliberate intention of the government in setting it up, or do you really mean it has in effect been run as if it were intended to be a profit-making institution?

The WITNESS: The answer is your second proposition.

By Mr. Bryson:

Q. Dr. Hope, I understand that the government's thinking in setting up this legislation as a profit institution was done not to discourage private lenders from lending money on farming land; that is my understanding of that. According to your evidence you believe that the Canadian Farm Board is the only agency left that is actually lending money to farmers. Now, in the light of that how do you account for the fact that other lenders have disappeared and the source of credit has dried up? Would you say it was possibly the Farmers' Creditors Arrangement Act which has been in force which has discouraged it?—A. I would suggest—and some gentlemen here may know more than I do; this is my personal view—it is partly in some provinces based on the experience under the Farmers' Creditors Arrangement Act; but that is not the whole story. It is probably due to alternative earnings of capital at higher rates in cities where they have more confidence than they have in agriculture; the cost of servicing agricultural loans is higher. In Canada it takes longer to appraise farm land than city property. In the cities you can invest large amounts of money in blocks and therefore they tell you it is better than investing in small loans of \$3,000, \$4,000 or \$5,000 scattered around the country. They have tried to streamline their investment programmes and they find it is better in the cities and in industry in general. I think that is the answer. The Farmers' Creditors Arrangement Act is of course part of the answer but perhaps not the most important one.

Q. Then there seems to be little or no reason why this board should remain a profit-making organization if these other people have left the field?—A. Well, it is true there has been a great gap appear since the 30's. The experience of the 30's was such that they withdrew as rapidly as they could and collected their money. Only in a few cases, in a few provinces, do I understand very occasionally they make a few loans. It is not universal. I can give you a personal experience. Six years ago I tried to get a loan on my farm for certain purposes. I was not eligible for a farm board loan at that time, and I scurried all around Ottawa to every loaning company, to every insurance company and every trust company that I knew of. Not one would advance a small loan, despite very good security, on a farm; not one! Eventually I went to a private lender and paid a very good interest rate.

The CHAIRMAN: I think there are a number of other reasons. I know that in our office we handle a great many mortgages, and therefore we have some idea of the viewpoint of the lending institutions, and one is that the cost of servicing city property—the actual cost of servicing the loan—is lower than in the case of farm property; inspections are cheaper and they can keep costs down pretty well to 1 per cent. Secondly, if the loan falls into default and they have to take the property over, the city property is much more easily managed; it does not deteriorate as rapidly as a farm, which, if not well managed, deteriorates quickly. Thirdly, there has been such a housing boom throughout Canada that practically every cent available for mortgage loans from lending institutions has been spoken for by builders of houses

before the money was even available. These are some of the very good reasons why lending institutions have not gone into the farm field. Of course, their experience was very bad in the western provinces, too.

Mr. QUELCH: There are quite a few mortgages out in western Canada still, are there not, in the hands of some of the insurance companies? It may be they are repeat mortgages.

The CHAIRMAN: Is the Canada Permanent still out there? They have been out there in a rather large way.

The WITNESS: The Great West Life Assurance Company had very heavy investments in farm property in the west, but hardly ever operated in Ontario. As I understand it, in the 'thirties the institutions which were lending were chiefly in the three prairie provinces, and very little in the east; and because the risks were not nation-wide they had their eggs in one basket—the basket that failed. Their experience was unfortunate chiefly due to the fact that the risk was concentrated in one area.

Mr. MACDONNELL (*Greenwood*): I think the reasons you have just given, Mr. Chairman, were very good ones but is there not an additional reason, that is, the assistance being given by public authorities for house building in cities, namely through the Central Mortgage and Housing Corporation? I think that has stimulated the trend. I have also heard, though I have no complete assurance on it, that a good deal of the lending done in the west by private institutions recently has been done in the cities and not to any great extent in the country, whereas formerly it was done almost wholly in the country.

Mr. QUELCH: Possibly they have doubts about the future of agriculture—they fear that prices are falling and that farmers may find difficulty in meeting their obligations.

Mr. MACDONNELL (*Greenwood*): I think the reasons given by the chairman are very strong. The demand in the cities has been there, and it is easier to collect payment and so on.

The CHAIRMAN: I know that building contractors have had to curtail their programmes in some areas, not because of physical difficulties but because there was not longer any money set aside by lending institutions for use during that year. Consequently, they had to defer part of their programme until the following year when they could expect an allotment from the lending institutions in respect of that year.

Mr. MACDONNELL (*Greenwood*): On the other hand, I think we could keep an open mind; this is a situation that could change, and you might find private institutions very ready to consider making loans again in farming areas when some of the pressure is off.

The CHAIRMAN: I think you might well find them returning to that field. Anyone familiar with Toronto will have noticed that vacancy signs are now to be seen outside a number of the apartment buildings which have been constructed as part of a great effort in this direction over the past few years, whereas formerly the mere rumour of a vacancy would attract about 500 people eager to have the rooms. That would indicate that the need for this type of housing has been fairly well satisfied.

Mr. WEAVER: I would like to thank Mr. Hope for the brief that he and Mr. Brodrick have presented. It is one of the most reasonable and sensible briefs I have seen in recent years on farm credit. I notice that on page 8 it mentions that there would seem to be little need for a special programme of making second mortgage loans, and I was wondering whether Dr. Hope would care to comment on that.

THE WITNESS: Well, we thought that the chief purpose of the second mortgage from the Farm Loan Board was primarily for buying equipment and livestock for the purpose of getting increased productivity, and we thought that the board could simplify its operations if it just dealt with first mortgages only, the maximum loan being raised to \$20,000. Then, we suggested some modifications in the farm improvement loans and we considered that the two acts, amended as we proposed, would make it unnecessary to have the board operating in the second mortgage field. I note, now, that in the proposed bill the power to grant second mortgages by the Board has been withdrawn.

MR. CAMERON (*Nanaimo*): I was interested, Dr. Hope, in your remarks about the declining importance of the agricultural section of our economy, and I was wondering whether your estimate was based on a decline in the ratio which agricultural production bears to total production, or whether it was based on a decline in the proportion of the gross national income which is going to farmers. It seems to me that any action we might take would depend on the basis on which you have made your calculations. Obviously, if your estimate is based on a decline in the proportion of the gross national income which is going to farmers, then the solution is to increase that proportion. If, however, you feel that the situation is caused by a dangerous decline in the proportion of our gross wealth production as accounted for by agricultural products, that means an expansion of the agriculture industry. I was wondering on which basis you had proceeded.

THE WITNESS: We do not try to refine our definition of relative decline too much. There are a number of indices which could be used—a decline in the relative labour force is one; the proportion of people engaged in agriculture is going down all the time. But this decline will, it is likely, begin to “taper off” pretty soon. The percentage of the total national income coming from agriculture is another index that could be used. We expect that to go down gradually, but that point was developed rather fully in the brief we presented to the Gordon Royal Commission. The situation will depend in part on our success in maintaining our exports. If we depend entirely upon our domestic consumption of food, it is definitely going to decline relatively; if we can maintain our export trade in some products we can prevent the relative decline being so rapid. In theory, we might be able to stabilize the situation if we could get our costs down low enough to compete with the rest of the world on a favourable price basis. In those circumstances we could maintain the agriculture industry relatively better than we could if we had a declining export trade.

MR. CHARLTON: Speaking of exports, what is the percentage of exports of agricultural products?

THE WITNESS: It totals about 30 to 35 per cent of our total agricultural production. That is based on gross value.

MR. CHARLTON: What percentage of our total exports is represented by agricultural products?

THE WITNESS: That is not very far from 30 per cent, also, I think.

By Mr. Argue:

Q. The main reason farmers get into difficulty in paying off loans is the fluctuation in the prices of agricultural products, and I think a great many of the problems involved in lending and borrowing money would be removed if there were suitable policies for the agricultural economy. I was wondering what stand the Federation is taking with regard to an agricultural programme into which our lending institutions would fit. In other words, what are your

suggestions for preventing a further decline in agriculture industry, which is in a state of semi-depression at the present time?—A. One of the ways in which we could maintain our export industry would be to achieve a continuous increase in our efficiency. We are competing against a large number of other countries which grow farm products for the export market, and to the extent we lag behind them it will be more difficult for us to maintain our position in the export trade and to maintain agriculture as a fair-sized business in our economy. Loans such as we are talking about—long term mortgage loans and farm improvement loans at a reasonable rate of interest—would allow farmers to equip themselves in order to achieve this end.

We must not forget that almost every country in the world—one might, indeed, say every country, including even the so-called backward countries—are going all out to make agricultural production efficient. They are holding interest rates on loans as low as they possibly can in order to enable farmers to buy productive equipment for this purpose. If we, in Canada, are going to lag behind the rest of the world we shall lose our export market, and to that extent even home-produced food would be dearer.

Q. Surely you must go further than this and say that a domestic policy of support prices—subsidies—use whatever term you like—is essential to maintain the efficiency of the industry and remove some of the results of these violent fluctuations in prices?—A. It is true we have advocated a price support policy, though not one of an extreme character. The Federation, we consider, has not gone all out and asked for extreme price supports, but we believe that if we can prevent prices falling too low we shall prevent them going too high later on, and thereby stabilize the price to the producer and to the consumer also, at a cost, perhaps, from time to time, of some subsidies. Some loss might have to be borne, but if you do not assume that there might be a loss occasionally, you will simply never stabilize agriculture.

In other words the farm economy in a completely free market with no price supports and no government intervention whatever would tend, over a period, to become more gradually violent in its price and income fluctuations.

Mr. QUELCH: Would you say that we are competing with the treasuries of other countries, rather than with the farmers of other countries?

The WITNESS: Yes, to some extent that is correct.

By Mr. Weaver:

Q. As an agriculture economist, Dr. Hope, can you tell us whether it is safe for the agriculture industry to depend upon 30 per cent of its product for export?—A. Let me answer that question this way: there is, I admit, always some risk in an international market, because no one knows what is going to happen to foreign countries. On the other hand, that 30 per cent is nearly all wheat, and if we leave wheat out it would not amount to more than 10 per cent. As far as wheat is concerned we must have a substantial export market because there is no other profitable one for the land, unless we want to put all that land into cold storage. We have got to send that wheat out. So, leaving aside the rest of the surplus of farm products today, it is not very great. In some cases, of course, it is still of importance—potatoes, to take one example, and, to a large extent, tobacco.

Q. I suppose you are of the opinion that a big influx of immigrants would largely remedy that situation by increasing consumption in the home market?—A. Yes, we advocate a good healthy immigration. We would like to see the home market expand.

Mr. BLACKMORE: Yes, but the immigrants would also increase production.

The WITNESS: That is so, but we do not consider the immigrants would increase farm production too much. They seem to like to work on a farm for a few months and then to leave for work in logging camps or in industry.

By Mr. Quelch:

Q. Mr. Chairman, does Dr. Hope know the percentage of our imports from the United States represented by agricultural products?—A. I am afraid I cannot answer that question exactly, except to say that it is very high because of cotton, citrus fruits, fresh vegetables and fresh fruits out of season. I would guess the figure would be at least half, or more than half, of our total imports from the United States. That includes, of course, imports which are non-competitive such as raw cotton which is of tremendous importance.

Q. What about sugar and coffee?—A. Yes, some sugar comes in, but coffee is not grown in the States unless you count Puerto Rico. Some rice comes from the United States. The percentage of our fresh fruits and vegetables coming from the United States is steadily increasing because of our wealth which results in an increase of our out-of-season consumption.

The CHAIRMAN: Dr. Hope, with the increased mechanization of farms, is it still more expensive to operate even though a farmer needs less hired hands? I was just wondering if the increasing expenditure on mechanization on farms was not to some extent counter-balanced by the fact that you need less people to operate?

The WITNESS: In other words, increased mechanization is counter-balanced by a smaller need for labour and results in lower costs?

The CHAIRMAN: Yes.

The WITNESS: On the basis of the cost required to produce the article, yes, you are correct; the reduction in labour costs more than off-sets the cost of the machinery, otherwise no one would farm along these modern lines. That is one answer. At the same time, mechanized farming does require more of the operating costs to be paid for in cash, and it requires more capital, because capital is replacing labour. I made a calculation once, a few years ago, rather roughly, and it appeared that it then required about \$7,000 or \$8,000 worth of machinery to replace one man in agriculture. That appeared to be the situation then. In the old days of horse farming a man needed to put out a lot less capital, although he had to have more labour. Labour was paid monthly. You did not have to borrow money to pay labour. You paid them monthly wages, or every other month, and it was a continuous process. But now you do not do that. You have to go out and borrow \$5,000 or \$6,000, and you have gradually to repay it with interest and principal payments, so it is a different kind of financial management from what it used to be.

By Mr. Quelch:

Q. Having in mind a farm that is largely a grain farm, and one in which the soil is of such character that the yield will be an average one, how large would you say that farm should be in order to make the most economical use of the full line of farm machinery? Did you not suggest some time ago that it would have to be around two sections?—A. Some years ago, when I was out west, I probably made such a statement. I was more familiar then with conditions; but I have not been out there for some years and I would hesitate to say now exactly what it should be. I do know that since I was out there combines are larger, one-way discs are larger, seeders are bigger, and I know that today it likely requires a larger unit in acres, to obtain a more efficient sized unit than when I was out there.

Q. I would imagine that is pretty well true today, and that a farmer would need a larger amount of capital to finance an efficient unit. We can hardly

expect the government to finance or subsidize an inefficient type of farming. That is probably why farm units are increasing in size, in order to operate on a more efficient basis.—A. That is correct.

Mr. ARGUE: In your study of agricultural policy in other nations of the world, do you know of any advanced nations which do less in the way of support prices and other policies for agriculture than is done by our country?

Mr. MICHENER: That is a pretty broad question!

The WITNESS: No, I do not know of any country that does less.

By Mr. Charlton:

Q. Coming back to the answer that you gave to the chairman's question; did you answer on the basis of the entire country, or on the basis of east or west? What proportion would there be in your answer with respect to east and west, and in the method of farming?—A. What was that again, please?

Q. The chairman questioned you and he asked you with respect to the cost of equipment on farms, would it probably offset the increase in labour previously, with labour instead of equipment. Would you say that perhaps the difference would be similar in the east and the west, or would there not be a much greater reduction in the west than in the east?—A. Yes, because the west is much more highly mechanized than the east. They have gone to the extreme, and I do not know if the west can reduce the labour content of their farm products very much more. But in Quebec you have the other extreme, where mechanization in Quebec has not gone very far.

There is an interesting point which I looked up the other day. It has to do with the value of horses in Canada. I found that the value of horses today in Quebec is about \$150 per horse, while in the west it is \$55. The value of horses in the western provinces since 1935 has not increased more than \$5 or \$6, starting away back in the thirties; but in the province of Quebec horse prices started low and have gone away up in price. Maybe horse dealers would make money through buying in Saskatchewan and shipping to Quebec. But, at the other extreme, New Brunswick is also somewhat similar but not quite so much as Quebec. I know that the demand for motive power in Quebec is still heavily influenced by the number of farmers who are horse farmers. There is probably a reason for that because Quebec farms are somewhat smaller, and maybe some of the land is a little rough and stoney. Therefore the Quebec farmers find that they make a better living right now with horses than they could by buying a tractor. That is because of the nature of their land and the longer winters and the deep snow, where they would use horses more often in the bush, and where the tractor is not very effective in the bush unless you equip it with half-tracks; but we feel that even this will change, and the day will come when the Quebec farmers will be highly mechanized. The problem then of financing farms, which is positively the greatest problem in the west, will be the same in Quebec as it is out west and even in Ontario, and it will also occur in New Brunswick.

By the Chairman:

Q. Would that not entail a change in the type of land holding in Quebec?—A. It would require larger farm units in Quebec. They might adapt a small tractor and equipment to a small tract of land but it would not be very economical; it would probably require a somewhat larger farm in Quebec.

By Mr. Argue:

Q. The purpose for advancing money under this act is, I believe, to provide more efficient farm units. Whenever there is industrial unemployment

in Canada everybody says that it is a bad thing and that we should try to correct it. But when there is a lot of unemployment in the agricultural industry, that is not true, although you have a good deal of labour with certain very tiny units which are very definitely under-employed.—A. That is true.

Q. Could you give us some idea of that under-employment and the number of employees in the agricultural industry who, by and large, because of their tiny farms, are wasting their time by being in that industry, and adding practically nothing to the productivity of the country?—A. I hate to give a figure. The census should give you some guide as to the number of part-time farmers and the number of self-sufficient farmers just producing enough for their own home produce. That is the type of which you refer, but off-hand I do not think I had better make a guess on it.

Q. Would you say that there might be many of the 100,000 people, the labourers working in the agricultural industry, who work at no other industry, who are totally, or almost totally under-employed in the agricultural industry because they are attached to, let us say, a tiny and inefficient farm unit?—A. Yes, I think that 100,000 would include nearly all the family labour; that might be an approximation. There has been a great decline in the number of farms since 1946, and a big drop in the labour force in agriculture since 1946, but in spite of that decline, the volume of farm production keeps on going up.

Q. Surely.—A. We believe that the decline in itself has been mostly in the sector of fringe farmers that you are referring to who are dropping out of the picture.

In some cases their farms have been taken over by their neighbours; in some cases they are dropping right out of the picture and the land is going right back to forest. That is a process which has been going on rather rapidly in the post-war years, but we see an indication of it slowing up. Based upon what we can anticipate in Canada that decline will not go on much longer. The problem of course is, what can we do about those farmers?

By the Chairman:

Q. In what province would there be the greatest decline?—A. In New Brunswick and Quebec. The unpaid family labour force, the farm labour force, in Quebec has gone down quite substantially in the last ten years. I am not too familiar with Quebec agriculture, but I can say that part of the answer might be to look at the definition for unpaid family labour as used in the Labour Force Survey. A labour force survey defines unpaid family labour as a worker who works so many days per week on a farm. You can see by looking at some of the figures that the decline in the unpaid labour force in Quebec has been mostly in female unpaid family labour, which would lead me to believe that the farm women of Quebec perhaps do not go into the cow barn as much as they used to, and therefore they are dropping out of the unpaid farm labour force.

By Mr. Macdonnell (Greenwood):

Q. Perhaps they are going to work in the city?—A. Possibly so, but the girls may have decided not to do so much farm work, and the same thing goes for Ontario and all over the country. Women are withdrawing from the cow barn.

Mr. HUFFMAN: Perhaps it is because of milking machines.

The WITNESS: Yes, milking machines would be quite a factor.

By Mr. Quèlch:

Q. In the west there are more girls running tractors now than ever before.—A. In the summer time that is a very important feature, and it is quite true. Although we are concerned with the sub-marginal farmer or the small farmer on land like that, we hear people talking about inefficient farmers and how we are subsidizing inefficient farmers. But you have got to take a look at both agriculture and non-agriculture, and when you consider a poor farmer with a low income. When you look at city people, I doubt very much if we have any greater percentage of inefficient people in agriculture than we have in industry. Take, for instance, non-farm labour. A farmer is always penalized if he is a poor producer. But in the city, people are not necessarily penalized if they happen to be poor producers. If you work as a labourer, well, you get a certain standard wage rate, and unless you are very bad, you will still stay on the job. But when a farmer becomes inefficient his income goes down before very long. So I do not think that agriculture is any worse in that respect, having regard to all the people of Canada. We hear people complain that we have so many inefficient small units.

By Mr. Macdonnell (Greenwood):

Q. That is why farmers are so much better than the rest of us.—A. There is another factor too. We must not forget those who have invested in farms in the back concessions of this country of ours. We often find a lot of happy people on small farms—some are mighty happy people. Usually they get low incomes, but they do not ask for a lot of things. They might be just as happy there as if they were shifted into some industrial job.

We would like to help them all we can, yet we do not think than any holus-bolus moving of them is going to be the final answer. However we do think this: what Canada does need, what we do need is a national policy of land classification right across the country. We definitely need a national policy of economic land classification by provinces so that we can mark out the areas which we consider are not suitable for farming and then take the people away from those lands and see if we can relocate them on some farms somewhere else, or in the city. Beyond that I do not see how far we can go. We have got that in the province of Saskatchewan. There the land is almost completely classified now. Alberta and Manitoba are also well along the way. Other provinces have got soil maps scattered here and there, but a real attempt to zone out the nation's resources of land has not been done. It is a long range programme that is very badly needed.

By Mr. Michener:

Q. Do you think there are many people trying to farm land who really are not suitable for farming?—A. Oh yes, there are lots of people like that, even in my own county.

Q. Is it desirable to help them to continue with such a thing?—A. No. The farm home improvement assistance administration in the United States points up how carefully you have got to be when you help a man through assistance, that you do not perpetuate him on a piece of land which is obviously unsuitable for agriculture. That is the judgment of the administrators.

By Mr. Charlton:

Q. Is that what Dr. Patterson meant when he said that some of these people on marginal farms should move to the city?—A. Dr. Patterson is a pretty sound man and if he said that, I am sure that is what he meant. I think he meant that if they were on sub-marginal land they would be better off if they were located in a city or on some better piece of land.

Mr. MACDONNELL (*Greenwood*): It may be that you feel that we cannot do anything about it. But I have been impressed by the thought that the agricultural problem is not one problem, but several problems. We are talking about an average farmer, but such a farmer does not exist. My point is this; it has become clear that farming conditions in the west are one thing; in Ontario they are another thing; in Quebec they are another thing, and in the Maritimes they are still another thing. You may say that there is nothing we can usefully do by way of trying to break that down, but it does seem to me that there is something artificial in trying to deal with an average situation, without trying to see how different the problems are in the various parts of the country. Perhaps when Mr. Chester returns, he can give us statistics to show how relatively important the loans are in various parts of the country. Perhaps you might consider that, Mr. Chairman. You need not give a ruling now; but it seems to me as I have listened that what we are discussing is something which is terribly concrete and real.

Mr. BLACKMORE: In every type of farm we have throughout the country, the interest rate charged on the loan is an important matter, and that is, after all what we are considering right now; and the next thing is the ready availability of the loan when needed, which is a very important matter, and that is another thing under consideration in this committee at the present moment.

By Mr. Pallett:

Q. Dealing with Ontario, you are probably familiar with Dr. Patterson's report to the Royal Commission. I was wondering if in his submission he pointed out the increasing size of the farm unit and the trend towards that increasing size, and if the maximum limits prescribed in the amendments to this act will be sufficient to take care of that trend. In other words, will a maximum loan of \$15,000 be sufficient? Your recommendation is for \$20,000.—A. We have suggested \$20,000 as a maximum, which is \$5,000 more than your proposed amendment. I might say that with the Farm Credit Administration in the United States their maximum is \$100,000. That is the maximum loan which can be obtained in the United States under the Farm Credit Administration.

Mr. BLACKMORE: And their need for loans is no greater than ours!

By Mr. Pallett:

Q. There is this trend in Ontario towards larger sized farm units.—A. Yes.

Q. Am I correct in saying that if you want to start with an average 100 acre farm, let us say, in western Ontario, that in order to bring it anywhere near an efficient operation it would involve an outlay of between \$40,000 to \$50,000?—A. I cannot answer that question exactly. I am not sure of the capitalization of western Ontario farms. It would be much higher than would be the case in eastern Ontario, for a 100 acre farm here. I would not like to say what it would be in western Ontario.

Q. Is there any trend towards a specialized type of agriculture?—A. Very much so.

Q. Which involves a higher degree of mechanization and even research coming into it?—A. Yes.

Q. Involving a higher output of capital; and would you care to comment if there would be any merit in increasing the size of the land under this act to take care of this situation, or including it under the Industrial Development Bank, since farming is a special industry.—A. I would rather that agriculture was not financed by the industrial development bank. I would rather treat this as agriculture and not as an industry. We do not favour big corporation farms. I know there are big farms—even perhaps here in Ontario—with a big

capitalization. We do not feel that is the answer to agriculture. We still stress the family-type farm. I think it is important, and I do not think that you need a huge capital investment to make agriculture healthy. That is why we thought \$20,000 would be ample to cover even a person who wants to get a large efficient farm unit.

Q. It is agreed, I believe, that there are a number of situations where the \$20,000 loan would not be sufficient?—A. There would be some cases no doubt; but not to any great extent. Mind you, Mr. Chester could certainly answer that question better than I could. He would know the amount of loans which have gone forward. However, a \$20,000 loan lending at 60 per cent of the appraised value of land means about \$30,000 worth of land.

Q. A little better than that.—A. Yes. That is a pretty good-sized farm.

By Mr. Macdonnell (Greenwood):

Q. Accepting your view that that is a pretty good-sized farm, is there a feeling that as a farm gets larger it becomes less efficiently operated and the loan becomes less secure? Up to what point do you think a unit could be efficiently organized? What would be the test?—A. The test, of course, would vary with the province, whether a fruit farm, specialized poultry farm, and so on. You see, after you get to a certain point in any sized unit, if you expand it you simply double each unit, and get another combine, and so on. If you double it and get one more combine, you probably have not increased your efficiency.

Mr. CHARLTON: If you do not double it and still have to acquire the second combine, then you decrease your efficiency?

The WITNESS: Yes. If you have not doubled the acreage, then, of course, you would not.

By Mr. Macdonnell (Greenwood):

Q. Is there also a feeling that when you get to larger figures the man is operating on a scale where he can get his money elsewhere?—A. That is an element, but probably a more important element is age; it is very important. When I was in Saskatchewan at the university we studied that question carefully. We analyzed all the farm records taken over a period of years. We examined the age of the man when he bought additional land, and that research came out with the conclusion that the typical age of ceasing to expand the farm unit was 55 years of age. The typical farmer at 55 years of age slows down to the point where he does not think it worth while to expand his business. That may also be true in the city. I am 56 years old and I find the same thing. I am at the point now where I do not want to take on more work than I can handle. A few years ago I could gobble anything up, but now I think I am handling all I can handle. If a farmer reaches that point at this age he is not likely to want to buy more land unless he has a young son coming along.

Mr. BLACKMORE: There is a question which I think would be worth probing into to some extent. As I recall it, Dr. Hope pointed out that the United States has gone all out—if that is the expression he used—to make their farmers efficient. Is there any reason why Canada, everything being considered, such as her present industrial development, potential industrial development—is there any reason why Canada should be less inclined to go all out than the United States?

The WITNESS: Not a bit.

Mr. BLACKMORE: It seems to me that has an important bearing on this matter.

The WITNESS: I think producing our food as efficiently as possible is in the national interest.

By Mr. Michener:

Q. That is not the same thing as producing more food. It is not necessarily in the national interest to produce more food?—A. No. I said to produce it most efficiently.

Q. That is a very important distinction.—A. It is true that most of the techniques in agriculture to increase efficiency are also volume-increasing forces. That is a very important thing to consider. Supposing you want to get a higher yield per acre of oats, for instance, in Ontario, or a higher yield or lower cost of producing soya beans or sugar beets or something, how do you do it? By putting on more fertilizer. You get a lower cost per unit but more total volume. You want to produce milk cheaper per 100 pounds. You feed a better kind of feed and you get a lower cost per unit of milk produced, but also a larger volume. When you do these things you obviously have to look for an additional market if you can, either a home market or a foreign market for the result of the increased efficiency.

By Mr. Charlton:

Q. Is it not true in many cases where farm prices are down that the production goes up?—A. Well, I am sorry I have to disagree with that. That is what economists call a backward sloping supply curve. Some people have claimed that, but I have never been able to see it. It may be due to the time lag; that is, the farmer lags in response to price. But I know, for instance, that when the price of hogs goes down it is only a matter of months before there are less hogs produced.

Q. There is a tendency to try to increase production to take up the lag in the price?—A. I do not think that is the solution.

Q. What is the difference?—A. Here is an example. Supposing this farmer produces hogs, and sometimes some turkeys, and maybe some eggs, perhaps dairy products as well; hog prices go down, and he knows this coming year it will be down in hogs, and he may look around and say, "I have got to produce another \$1,000 in income". He may go in for more turkeys. He may reduce hogs a little, but he will go in to turkeys to get the extra \$1,000. That is why the total volume of farm production does not go down. Production of individual products shifts around, but the total keeps on going pretty steadily.

By Mr. Huffman:

Q. Doctor Hope, as I recall your observation yesterday, you predicted farm commodity prices would show a general increase over the period which we are now in. Will this trend mean there will not be a lesser demand for loans than there has been?—A. On the basis of a gradual recovery in agriculture from the present position, you are assuming that would mean a decline in the demand for loans?

Q. Yes.—A. Not exactly. There would be a decline in the loans of a re-financing type, but there would be an increased demand by young farmers. I do not think you could say that would be the result. The net effect would likely be no significant change in the overall demand for loans. We know this, that prosperous times bring out a great demand on the part of farmers for intermediate credit loans—a greater demand. In other words, in prosperous times the farmer is expanding and wants more fertilizer and equipment, and so on. There is more fertilizer put on when there are high prices than when prices are low. In hard times the farmer does not buy fertilizer.

Q. On page 6 of your brief you say this: "In some cases sons inherit their fathers' farms after helping run them under a wide variety of more or less informal arrangements." I would hope that you would stress that point still further because rather than the informal arrangements I would hope that there would be more formal arrangements, so that when an estate or a farm is transferred there would not be the problems which sometimes arise now in another department of government, namely, the National Revenue Department.—A. I agree with you. It is very tragic sometimes, the complete financial ball-up which some farmers get into with their own sons with respect to establishing arrangements, as to income tax and everything else. It is an extremely involved thing. I suppose it is partly carelessness. A young fellow will work with his father for years with no financial arrangements and then when the father dies everything is up in the air. I agree it is a bad thing. The federation has not really gone out on an educational program of that nature. I believe we should perhaps educate our members to do these things. We are now trying to get them to take out workmen's compensation. More farmers should carry workmen's compensation for farm help.

By Mr. Crestohl:

Q. Dr. Hope, I am concerned with one question put to you very bluntly, to which you gave an equally blunt reply. You were asked whether there was any country in the world in which the government does less for farmers than Canada. Your answer was a very direct "no". I want to know whether that "no" embraced all these phases of agriculture such as, is the necessity as great in this country to subsidize farmers as it might be in other countries, living conditions here in Canada might be good and perhaps better than they are in other countries, and the whole gambit of conditions might give your reply a very misleading effect. I would like you to enlarge on that.—A. That is a very good question. Of course, the way the question was put, the answer was correct.

Q. I do not doubt that.—A. There might be an implication behind it that we were completely dissatisfied. That is not correct.

Q. Would you enlarge on that?—A. Obviously, we feel that we do not have all the policies we would like to have; but we are not completely dissatisfied with what has been done to date.

Mr. ARGUE: Nobody is.

The WITNESS: I do not want my answer, Mr. Chairman, to mean we are dissatisfied and grouchy and complaining, because we are not. On the other hand, we must admit that if you survey the world and the various countries like Europe, New Zealand, France, and so on, they are obviously attempting to foster agriculture on what I suggest to you to be a more generous scale than Canada.

The CHAIRMAN: Is there not a different social and economic background that makes them do that?

The WITNESS: Yes. In the case of Europe it is a desire for national self-sufficiency because of the danger of war. There is no doubt in the world about that. For instance, Italy, Denmark, Holland, Great Britain, all have the fear of being caught unprepared and therefore they tend perhaps to subsidize their agriculture quite highly. There is also the political situation where in France there is a very high percentage of the voters who are rural. That is not so in Britain. I think in France the political situation enters into it.

Mr. ARGUE: As it does here.

The WITNESS: There is one more point about New Zealand. I do not suppose New Zealand particularly subsidizes her farmers very much, but they

do have a lot of assistance, state intervention and guidance, in their agriculture. They have set up nation-wide marketing boards there to handle their dairy products. They try to stabilize the farmer's income by means of these marketing boards. They have a very high quality of research, state-supported, because they know their major export products are dairy products and they have to compete with the whole world. Therefore they go all out to increase efficiency, and are very successful.

By Mr. Blackmore:

Q. I was interested in what you said about France.—A. I said that a very high percentage of the people are rural and agriculture has a very strong political voice. But, basically, looking at the world as a whole, it appears to be this: all countries have land—I do not care where they are—they all have soil, but they do not all have forests; they do not all have coal, nickel, aluminum, or waterpower; but they have land, all of them. That is the one resource they all have and they are going to develop it to the full. We have to compete with every country in the world that knows that, and they have all types of programs to boost their agriculture. That is the field we have to compete in. That is a national policy employed by all these countries.

Again, I want to say this, Mr. Chairman, do not take my answer to mean we are crabby. The question was put to me and I answered it correctly. I do not know of any country which gives less assistance. Some give more assistance. I would like to see a little more; not a subsidized farm economy exactly. Above all we need, maybe, a little more sympathy from city people, as to the problems we face on the farms.

By Mr. Crestohl:

Q. But you are quite content Canada could do more, but is doing reasonably well?—A. Yes, I would say we are doing reasonably well, but could do more. I am grateful to have had this opportunity to come before you gentlemen here to put our case.

Mr. ARGUE: We worked hard to get it for you, I assure you.

The WITNESS: I appreciate it. As a matter of fact, Mr. Chairman, I am quite convinced that every gentleman in this room here basically is friendly to agriculture. I am sure you realize that you spend a quarter of your income on food in this country, twenty-five cents out of every dollar. Twenty-five cents out of every dollar spent in Canada is spent over the counter for food we produce, and so surely you should be interested in an industry which takes one-quarter of your money.

Mr. ARGUE: How much do the farmers get of the 25 cents?

The WITNESS: About half.

By Mr. Blackmore:

Q. And of the food we buy how much comes from other countries without protection to our own producers?—A. We get, of course, a fairly amount of non-competitive products, but there is not very much of the products which we produce ourselves.

Q. How many of the products are really competitive on the market today, considering the subsidies given by even Turkey?—A. You mean how many products are sold on the world market completely free of any subsidy?

Q. No. Mr. Quelch said we are competing with the treasury of other nations, and that means we are placed at a handicap, but the general impression seems to be that our farmers should be able to surmount that handicap when they are competing with Cuban sugar, other people's potatoes, New

Zealand cheese, butter, wool, sheep, and all that sort of thing.—A. I am not sure how to answer. You did not put it as a question.

Q. I was leading a little bit. But, Mr. Chairman, I think it is a very important matter that we should realize that our farmers are not having an easy time. A short time ago Dr. Hope made a remark which I thought was very, very appropriate. He said the day will come when Canada will look over this situation and say we have gone far enough. By that time we will probably have destroyed a large portion of our agricultural potential. Would it not be wise to find out whether we have gone far enough now?—A. Perhaps. There is a small example, which is of interest to me. You have heard a lot of talk lately about the great expansion of engineering in Russia and how we are not turning out enough engineering graduates. It is stated that it is a great tragedy. We have men who come back from Russia and tell us that repeatedly. They tell us that we are away behind in engineering, and that there is a great danger.

Did it ever occur to you that the best place to train engineers is on the farm? It is really the best place to train a future engineer on the farm. running machinery, where he learns from the age of ten up, and when he goes to college he has practical experience and knows how to use his hands and his head; he has the kind of training which a boy in the city never has. I had a concrete case which I told to the Gordon Royal Commission, and will give again. My son, now a Carleton College student taking an engineering course, is about 22 years old. He was raised on the farm; at the age of 10 or 12 began to handle machinery. He repaired the machinery, constructed things himself, and built a wagon himself. He built a day elevator to elevate the bales of hay into barns, when 17 or 18 years old. He decided he wanted to go into engineering, agricultural engineering preferably, and decided to take a mechanical engineering course. About a year after he started the course my wife was talking to an engineering contractor and somehow in this discussion this fellow said. "What is your son going to do?" "He is going to become an engineer," was the answer. "Does he come from the farm?" She answered, "Yes". He said, "You know, Mrs. Hope, in my long years of experience in engineering and construction work I have had occasion to meet many engineers and by far the best engineers are the ones who were raised on the farm. "I always want the engineer who came from a farm background and then went to college. He is better than the other fellow." Therefore, I say we have a great training ground for future engineers in Canada right on our mechanical farms.

Mr. FRASER (*Peterborough*): At the same time, that is taking the young man off the farm, and that is not what we want to do.

The WITNESS: That would be correct to a degree, except that we know a certain number have to leave the farm. We do not worry too much as long as the good man who wants to stay has a fair chance to become established.

Mr. HUFFMAN: Mr. Chairman, I believe that Dr. Hope has given this committee desirable information, and I understand he will be called before the agriculture committee at which many similar questions will probably be asked. I wonder whether we have not rather exhausted the questions, possibly, at this time, as to the true position of agriculture? Perhaps we could relate any further questions we might wish to ask to the subject of long-term loans in which we are particularly interested.

The WITNESS: Following that statement, the hour is getting late and I feel, as Dr. Huffman said, that we have for the time being exhausted this subject. I am wondering if I might make a short statement and then, maybe, we could come to the end of the time when my presence is required here.

Some hon. MEMBERS: Agreed.

Mr. MACDONNELL (*Greenwood*): Before he goes on with that statement, may I ask Dr. Hope whether he would consider adding to it any comments about the possibilities ahead with regard to the export of agricultural products?

The WITNESS: It does not fit in, specifically, with what I have in mind, in a final statement, so I will just say this: So far as the export market is concerned our views are well set out in our brief to the Gordon Royal Commission. I can summarize them by saying that we feel we shall for many years to come need a good export market for wheat. We hope to be able to maintain it, but we do not look to see an expansion of the world total market. In view of what is going on in other countries of the world we shall be fortunate to hold it at about the present level.

With regard to the other products, we would expect tough competition from the European countries. We do not look for any great expansion in the export of farm products to the so-called backward countries, because they are embarking on great projects to try to feed themselves. Therefore, we would anticipate no great expansion in farm exports to these countries. We would hope to keep the American market open as far as we can because this is a close market to us, and we would very much like to see it kept open. With regard to the British market, we are not very hopeful that we shall be able to secure any great expansion or even be able to get into that market on any considerable scale, because of Britain's own domestic subsidy program and, also, because Denmark and Holland, both surplus-producing countries, are right next door. On the other hand, we are hopeful that our own domestic market will continue to expand at a sufficiently rapid rate to afford reasonable prosperity in the home market, and we are looking to that in the future.

Now, Mr. Chairman, I come to the few remarks with which I should like to close.

The main problem today with regard to long-term farm credit is the transferring of farms, which constitutes a relatively high cost to a young man establishing himself. This is mainly because, first of all, of the change from horse farming to power farming, and this process is still going on and will continue to go on. Secondly, a larger farm business is needed today to provide a moderate living standard compared with the situation some years ago. These two factors mean greater credit needs. They affect not only the young man himself—the young farmer whose case we have stressed so strongly—but they directly affect the father of the young man concerned—the father who wants to retire. In many cases he wants to transfer the farm to the son; the son only possesses a small amount of capital and the father cannot retire unless the farm is sold at a reasonable price together with the equipment and stock so that he will have enough to live on. Therefore this is a social problem as well as an economic problem; a father cannot retire because the boy is not able to secure enough money to finance himself under the present arrangements. As I say, this is a social problem as well as a financial one and it is growing all the time.

A suggestion was made here that we might transfer this burden to the provinces. Well, Quebec has handled it pretty well by subsidies—low interest rates—but the Ontario scheme is working, I suppose, only moderately well. The West, I am quite convinced, cannot do it and therefore we look to a national scheme. I think this should be done on a national basis. I do not think the provinces would worry about it if you took this over and in any case we would not have to wait years and years until all provinces decided to do something. You could do it, in effect, this spring if you made a decision to do it, and you would be doing a real service for agriculture if you decided to do it right now.

Private mortgages do not fill the bill for two reasons: the rates are high and the terms of borrowing are short—five year terms renewable at the end of the five year period. Beside the cost of renewing the mortgage one must also consider the uncertainty which this imposes on a young man who is left wondering whether or not he will get an extension. Private institutions have practically withdrawn from this field and we see no evidence that they wish to return. They are happy in the lucrative field of lending to the city people.

What we need is a national organization to bridge this gap which now exists, and fill this particular field, and we feel that the field is wide open to the Canadian Farm Loan Board who could step right in and do a real service. I am quite confident that if the act were sufficiently flexible—if these gentlemen were given pretty wide powers, and if they could go out and do this job for agriculture they would do it even though it would probably mean hiring more men and arranging for some of their staff to have special training in giving assistance to farmers.

The Federation has asked for interest at cost, and a maximum of 40 year repayment terms with a \$20,000 maximum loan, loans to range from 60 per cent of the appraised value to as high as 80 per cent on small loans, up to a maximum of \$8,000. Of course, we would naturally like to see our recommendations fully implemented; it is only reasonable we should press for that. But if this is not possible we would earnestly like to see you stretch yourselves as far as you possibly can along the lines we have suggested. We believe there is nothing harmful in having a 40 year term as the maximum. It does not weaken the loan, it does not make the loan less secure; it just makes the loan somewhat easier for a man to pay. That does not mean to say that everybody is going to ask for a 40 year term. Some farmers may be afraid of it and say: "Oh, I will be dead before that time." This thing should be flexible. Some people may choose a 10 year period, or 15, or 20 years up to a maximum of 40 years and my guess would be that many farmers would not want to touch the 40 year term. At the same time I am quite sure that some young farmers with limited capital will accept the 40 year term with great satisfaction. That does not mean to say they are going to keep the loan on for 40 years. If the man concerned is an up-and-coming fellow, then after five or ten years he might decide to pay it all off. What we urge is that you should give him a chance to start—let him become an owner, taking an owner's interest in the land he farms. It is home ownership that we are trying to sponsor, and in our opinion the 40 year term will definitely help bring this about.

We consider that a lower interest rate is completely feasible even on the government's present borrowing rate of $3\frac{1}{2}$ per cent if you do not demand that this corporation should always show a profit and if you do not worry too much should there be a little loss now and then, or put the board "on the spot" if they lose \$100,000. What is \$100,000 to an industry that has \$4 billion worth of land behind it? With the expansion of the board's activities which could be expected as a result of this proposed new policy it would be quite practical to lower the rate of interest along the lines we suggest.

With respect to the percentage of the appraised value which we recommend, I would say that we are not unreasonable people. The Directors of Canadian Federation of Agriculture are farmers who are sound businessmen in addition to being practical farmers. They do not say that all loans should be 80 per cent of the appraised value of the property. We think that on a large loan you might make the figure 60 per cent of the appraised value because we consider that the element of risk attached to so large a loan is greater. A large farm can make a great profit, but it can also make a devil of a big loss. The young fellow starting out to farm would not likely be in the field for a big loan, anyway; he is not going to ask for a \$20,000 loan.

We are interested in the fellow who may want to borrow \$6,000, \$7,000 or \$8,000—a man who already has, perhaps, \$4,000. If the man is an approved risk, and you have discussed the matter with him, make it 80 per cent of the appraised value. But, we say, in that case let the board make a decision whether in its opinion they think that lad needs supervision. That, of course, will mean the hiring of some more men and the training of more men to do the work. It may be that three quarters of the board's inspectors are not at present adapted to that type of work. Possibly, a few of them are. But if we double the dollar volume of the business being conducted by the board they will need more men anyway, and they should be well trained men who could carry out the kind of supervision which we have in mind. Obviously this means incurring some extra cost and it is possible that the board might lose money because of this additional administration cost. We consider that we should not shy away from this. We felt that it is in the national interest that a young fellow should have a chance to follow his father and that the father should have a chance to retire, even at the expense of the cost of some supervision.

We considered for a long time whether or not it was desirable to have two separate agencies, one an agency such as the Canadian Farm Loan Board acting or operating on a strictly business basis and the other a separate agency established to make assisted loans to young men starting out to farm, along the lines of the system operating in the United States. But, on reflection, we did not think we would get very far with the government of Canada if we asked for another agency. I think we know this government pretty well, and maybe there is some logic in not having two agencies. Therefore, we conceived the idea of taking the present board, expanding it a bit, and having a separate branch, maybe, to assist young farmers, leaving it to the discretion of the board to determine how far to go within the framework of the 80 per cent limit we have suggested. The board, and its inspectors, would be the ones who would decide whether or not a particular man needed a supervised loan.

There is one more thing which I would like to say, and that is on this question of the prepayment plan. There is nothing in this proposal which would hurt anybody, and no reason why this amendment should not be put in. It does not weaken the loan; it simply means that when a farmer has a good crop in his district an inspector is informed and he says: "this year you have a good crop, and we suggest that maybe you could make an additional payment now—your normal payment plus another, or maybe two, and we will give you interest; and when things do not go so well, just inform us and we will take your annual payment out of the fund." That could be arranged without any harm to this act.

Mr. FRASER (*Peterborough*): Would it not be better to reduce the payment for the balance of the year?

The WITNESS: Strictly speaking, that would go to another year and he would then be in arrears. They operate that system now. They do encourage that kind of repayment at the present time, but strictly speaking a man could get into arrears that way. The method we are suggesting would avoid this and the farmer would get interest on his money.

The final word I have to say is this: this is the last chance I would guess, for some years we shall have as organized farmers, of discussing this Canadian Farm Loan Board question. I do not know how often this matter is looked at, but, as I say, this may be our last chance for some years and I think you have an opportunity right now if not to solve the young farmer's problem completely, then to go an awfully long way to doing so without

hurting the taxpayers of Canada one iota by introducing longer terms of borrowing, a little lower interest rate and encouraging a bigger volume of business.

By Mr. Fraser (Peterborough):

Q. And less "red tape?"—A. Yes, you can say that. I do not know how much "red tape" is in it now, but certainly there should be some method of speeding up the making of loans.

Q. Yes, faster appraisals.—A. The whole thing could be changed in such a way that agriculture could say, at long last: we now have a plan whereby a young fellow starting to farm on a relatively small capital has a chance to get into operation. The bill as it stands right now is a very creeping little step in the direction I have been talking about.

Q. Even with the amendment?—A. Even with the amendment. It is in the right direction, but it is a very small step.

Now Mr. Chairman, I have talked for a long time; in fact I have over-talked myself; I have talked too fast, sometimes, but I certainly appreciate, on behalf of the Canadian Federation of Agriculture, your kindness in inviting us here, and I hope we have helped a little in leading this committee along the road to—as we see it—the light.

The CHAIRMAN: I think, gentlemen, I can speak for everyone here when I say that Dr. Hope's discussion has been greatly appreciated. It has been a revelation to me as a "city slicker" and I am quite sure that it has been so to many others here, and I do thank you, Dr. Hope, on behalf of the committee for coming here, giving up your time, and being so helpful in our deliberations.

The WITNESS: Thank you very much.

The CHAIRMAN: Gentlemen, it is getting close to 1 o'clock. You have been given briefs by other organizations which have submitted them—the Interprovincial Farm Union Council, the Alberta Sugar Beet Growers, the Eastern Irrigation District, and the Lethbridge Central Feeders Association, and I suggest that these briefs be attached as appendices to the record of this meeting. Is that agreed?

Agreed.

(See Appendices "A", "B", "C" and "D".)

The CHAIRMAN: When you have read them, if there are any further questions you wish to ask in connection with them, or in any other connection, there will be an opportunity of your doing so.

Normally we should now go on to hear again from the chairman of the Canadian Farm Loan Board—if you want to continue for 10 minutes—

Mr. ARGUE: Let us adjourn.

Agreed.

The CHAIRMAN: Agreed. The committee is adjourned until 11 o'clock on Tuesday next, April 17th.

APPENDIX "A"

INTERPROVINCIAL FARM UNION COUNCIL

Submission to the

BANKING AND COMMERCE COMMITTEE

of the

HOUSE OF COMMONS

Ottawa, Canada

- -

April 10, 1956

As farm unions affiliated with the Interprovincial Farm Union Council, we welcome the opportunity of tabling before this committee on Banking and Commerce our views on some of the credit problems of farm people.

The area of greatest agricultural expansion in Canada since 1901 has been centred in the prairie regions. It is only natural that this should have been so, since it was at the turn of the century that a large influx in immigration and settlement took place on the newly-opened territories. Expansion was very rapid, and this new land opened up a ready market for manufactured goods produced by eastern industry.

The table on the following page illustrates the increase in farm values on the prairies from 1901 to 1951, in relation to the national increase during the same period.

TABLE I
FARM VALUES—PRAIRIE REGION AND CANADA
1901 to 1951

(Millions of Dollars)

| | Total | Land and Buildings | Implements and Machinery | Livestock and Poultry |
|-----------------|-------|-----------------------|-----------------------------|--------------------------|
| Prairie Region: | | | | |
| 1901 | 231 | 159 | 18 | 54 |
| 1911 | 1,789 | 1,417 | 110 | 262 |
| 1921 | 3,256 | 2,503 | 343 | 410 |
| 1931 | 2,530 | 1,949 | 351 | 224 |
| 1941 | 1,946 | 1,377 | 318 | 251 |
| 1951 | 4,698 | 2,727 | 1,147 | 824 |
| Canada: | | | | |
| 1901 | 1,787 | 1,403 | 109 | 275 |
| 1911 | 4,232 | 3,344 | 257 | 631 |
| 1921 | 6,555 | 5,053 | 665 | 836 |
| 1931 | 5,248 | 4,053 | 651 | 544 |
| 1941 | 4,241 | 3,030 | 596 | 616 |
| 1951 | 9,471 | 5,527 | 1,933 | 2,010 |

Source: Handbook of Agricultural Statistics—August 1955.

With the opening of the prairie frontier, the Homestead and Pre-emption laws of the day provided ownership of farm lands by the settlers who had come to turn the first sod. This initial policy of farm ownership on the prairies was in keeping with the pattern set in other provinces, and in 1901, 92 per cent of prairie farms were owner-occupied, which compared favourably with the national average of 87 per cent. Prairie expansion coincided with the food

demand created by World War I, and so was accompanied by a great demand for credit. Non-governmental institutions proved a ready source, and many farmers borrowed heavily at exorbitant interest rates. Certain provincial governments set up lending agencies in competition with mortgage companies to meet threats of foreclosures.

However, when the Canadian Farm Loan Board Act was passed in 1929, most provinces discontinued their services. Because of the inflexible repayment policies practiced by mortgage companies, many farmers found it difficult to repay loans in the 1930's when low yields and low prices created an impossible situation. Debt legislation was introduced which prevented wholesale eviction of farmers. Nevertheless, a downward trend in the number of owner-occupied farms became evident, and from this shift developed an increase in the number of tenant and owner-tenant farms as well as a definite increase in the size of farm units. Table II illustrates the decline in owner-occupied farms on the prairies from the turn of the century to 1951 in comparison with other areas of Canada.

TABLE II

OWNER-OCCUPIED FARMS, CANADA AND REGIONS—1901-1951

| Year | Canada | Atlantic Region | Central Region | Prairie Region | British Columbia |
|------------|------------------------------------|--------------------|-------------------|-------------------|---------------------|
| | (Per cent of total occupied farms) | | | | |
| 1901 | 87 | 95 | 84 | 92 | 80 |
| 1911 | 89 | 95 | 86 | 90 | 86 |
| 1921 | 86 | 95 | 88 | 78 | 85 |
| 1931 | 80 | 94 | 86 | 69 | 81 |
| 1941 | 75 | 92 | 85 | 59 | 80 |
| 1951 | 75* | 92 | 88 | 61 | 85 |

* Including data for Yukon and N.W.T.

Sources: 1901-41, Census of Canada, 1941, Vol. 8

1951, Census of Canada, 1951, Vol. 6

The increase in size of farm units, too, has been more evident in the prairie region than in other areas of Canada which were already established agriculturally at the time the prairie region was opened for settlement. Table III on the following page illustrates this change.

TABLE III

AVERAGE SIZE OF FARM—CANADA AND REGIONS—1901-51

(Acres)

| Year | Canada | Atlantic Region | Central Region | Prairie Region | British Columbia |
|------------|--------|--------------------|-------------------|-------------------|---------------------|
| 1901 | 124 | 102 | 104 | 279 | 230 |
| 1911 | 160 | 105 | 104 | 289 | 150 |
| 1921 | 198 | 104 | 119 | 344 | 130 |
| 1931 | 224 | 112 | 122 | 381 | 136 |
| 1941 | 237 | 116 | 122 | 405 | 153 |
| 1951 | 279* | 113 | 132 | 498 | 178 |

* Including data for Yukon and N.W.T.

Sources: 1901-1941, Census of Canada, 1941, Vol. 1

1951, Census of Canada, 1951, Vol. 6

Although the size of farm units increased most rapidly between 1911 and 1931, the actual number of farms in the prairies continued to increase during the nineteen thirties. Table IV below, illustrates the rise and fall in farm population by tenure and areas from 1901 to 1951.

TABLE IV
FARM HOLDINGS BY TENURE AND AREAS—1901-1951

| Item by Province | 1901 | 1911 | 1921 | 1931 | 1941 | 1951 |
|--------------------------------|---------|---------|----------|---------|---------|---------|
| Total number of occupied farms | | | | | | |
| 1. Man. | 32,252* | 43,631* | 53,252* | 54,199 | 58,024 | 52,383 |
| 2. Sask. | 13,445* | 95,013* | 119,451* | 136,472 | 138,713 | 112,018 |
| 3. Alta. | 9,479* | 60,559* | 82,954* | 97,408 | 99,732 | 84,315 |
| Operated by owner | | | | | | |
| 4. Man. | 28,663 | 36,385 | 43,169 | 37,769 | 38,293 | 37,184 |
| 5. Sask. | 12,924 | 86,109 | 91,587 | 90,250 | 72,954 | 61,157 |
| 6. Alta. | 9,076 | 55,688 | 65,900 | 70,751 | 62,366 | 52,871 |
| Operated by tenant | | | | | | |
| 7. Man. | 1,614 | 4,536 | 6,053 | 9,857 | 10,986 | 5,062 |
| 8. Sask. | 212 | 3,497 | 12,942 | 21,044 | 34,093 | 16,495 |
| 9. Alta. | 211 | 2,321 | 8,072 | 11,808 | 17,032 | 9,735 |
| Part owner-part tenant | | | | | | |
| 10. Man. | 1,975 | 2,710 | 3,549 | 6,369 | 8,367 | 9,780 |
| 11. Sask. | 309 | 5,407 | 13,841 | 24,737 | 31,028 | 33,760 |
| 12. Alta. | 192 | 2,550 | 8,253 | 14,540 | 19,761 | 21,098 |
| Operated by Manager | | | | | | |
| 13. Man. | | | 481 | 204 | 378 | 357 |
| 14. Sask. | | | 1,081 | 441 | 638 | 606 |
| 15. Alta. | | | 729 | 309 | 573 | 611 |

* For comparison with later censuses, deductions have been made as follows: In Manitoba, 243 plots under 1 acre in 1901 and 1,278 in 1911; in Saskatchewan 167 plots under 1 acre in 1901 and 317 in 1911, and in Alberta, 7 plots under 1 acre in 1901 and 500 in 1911. In 1911 and 1921, farms on Indian reserves were not included.

The 1930's were years of indebtedness, but improved crops and more favorable prices during the 1940's aided in liquidating farm indebtedness. Still, in spite of improved production and price factors in later years, the number of farm units in nearly all areas of Canada have decreased sharply, particularly in the prairie region which accounts for over one half of the total national decline between 1941 and 1951.

TABLE V
OCCUPIED FARM DWELLINGS 1941 and 1951

| | Canada | Atlantic Region | Central Region | Prairie Region | British Columbia |
|------------|---------|-----------------|----------------|----------------|------------------|
| 1941 | 703,782 | 72,756 | 330,104 | 275,410 | 25,512 |
| 1951 | 629,785 | 67,155 | 296,880 | 236,010 | 29,740 |
| | -73,997 | -5,601 | -33,224 | -39,400 | +4,228 |

It is probably well to consider some of the causes contributing to the large decline in farm population during this relatively favourable period. In passing through the bitter years of the 1930's, farming emerged into the 1940's with low capitalization and ill-equipped. The demand for improved mechanization could not be met until the end of World War II, when the virtual replacement of horsepower by mechanical power took place. These changes created heavy capital investment in farm machinery, making it necessary to increase the size of operations wherever possible for the sake of efficient and low-cost production. With high and invariable costs, many of the smaller and less efficient

farming units were absorbed by other operators. Still, many small units, by virtue of above-average yields of farm production in the last 10 years, have succeeded in weathering the economic storms to date, although Table VI, which follows, illustrates that the need for capitalization on prairie farms is still very great.

TABLE VI
SALE OF FARM PRODUCTS BY ECONOMIC CLASSIFICATION—1950

| | Alberta | Saskatchewan | Manitoba |
|---|-------------------|--------------|----------|
| | (Number of Farms) | | |
| All occupied farms | 84,315 | 112,018 | 52,383 |
| Value of products sold of: | | | |
| \$20,000 and over | 1,231 | 392 | 240 |
| \$15,000-\$19,999 | 1,015 | 549 | 313 |
| \$10,000-\$14,999 | 2,828 | 2,156 | 1,200 |
| \$7,500-\$9,999 | 3,400 | 3,709 | 2,115 |
| \$5,000-\$7,499 | 7,748 | 10,520 | 5,770 |
| \$3,750-\$4,999 | 7,762 | 11,466 | 5,822 |
| \$2,500-\$3,749 | 12,841 | 20,720 | 9,042 |
| \$1,200-\$2,499 | 21,177 | 33,236 | 12,824 |
| \$250-\$1,199 | 12,964 | 18,772 | 7,464 |
| Small Scale Farms—less than \$250 | 8,141 | 5,976 | 4,285 |
| Part Time Farms | 5,118 | 4,376 | 3,271 |
| Institutional Farms | 90 | 146 | 37 |

Source: Census of Canada—1951.

With a greater proportionate increase in machinery investment to land and building investment, the capital requirements of farm people have greatly increased. Similarly, a change in the kind and amount of agricultural credit has become necessary.

To this end, the Farm Improvement Loans Act of 1945 has played a major role in providing the necessary credit needs of farm people for machinery purchases. The annual report of this act for the year ending December 31, 1954, indicates that it has provided to farm people loans amount to \$513,606,648 since its inception in 1945. Of this amount, 89.8 per cent was loaned for the purchase of farm machinery. Seventy-five per cent of the amount loaned has been collected and bad debt claims amounting to only \$149,814 have been paid by the federal government.

The Canadian Farm Loan Board, on the other hand, has made disbursements of only \$99,755,195 including second mortgage loans, since its inception in 1929 to March 31, 1955, in spite of the fact that the terms of reference for lending purposes are broadly similar in both acts.

In the case of that large group of prairie farmers who presently have an income of \$2,500 or less, there exists an acute problem with respect to obtaining farm credit to rehabilitate or consolidate present farm holdings. In the throes of the current cost price squeeze, many farmers in this classification may soon find themselves displaced from agriculture unless some more liberal means of procuring capital is available to assist in their stabilization.

The Saskatchewan Royal Commission on Agriculture and Rural Life noted that during the period 1936-51, the number of quarter and two quarter farmers in Saskatchewan alone decreased by 28,892 and 11,271 respectively, and during this same period, the number of farm families in the province declined by nearly 30,000. The numerical increase in size of farms occurred in the four quarter and over operators, which indicates that this group were better capitalized initially than the small farmer and were thus able to enlarge their unit holdings.

The problem, therefore, exists, of minimizing the further displacement of farmers presently occupying one and two quarter section farms by extending to them a form of credit that will enable them to increase their farm holdings rather than to be absorbed into units which are already of an economic size. The magnitude of this problem is illustrated in the case of Saskatchewan, which alone had more than 57,500 farm units in the one and two quarter section classification according to the 1951 census.

A further credit problem also exists in the case of thousands of young farm people who have no means of establishing themselves agriculturally due to a lack of capital. No federal credit agency is available to extend assistance to these young people unless they already have a large portion of the initial capital requirements. In cases such as this, the assistance of the Canadian Farm Loan Board is not within reach either financially or morally.

The farm unions are concerned by the fact that 25% of all farm lands in Canada are presently owned by individuals or corporations who have assumed the role of landlords. Much of this land is farmed by tenant farmers on a yearly lease basis. There is little security to farmers in these circumstances—or encouragement to personal initiative. The death of a landlord may suddenly displace him from his occupation, and the land split by estate proceedings or offered for sale. In the case of the latter, lack of capitalization may deny him the opportunity of becoming permanently established.

Because the lending policy of the Canadian Farm Loan Board has been overly cautious, it has been unable to assist the three classifications of farm people whom we have described.

One of the considerations of this committee will be to raise the maximum of first mortgage loans from \$10,000 to \$15,000, and eliminate loans under second mortgages. Further, the basis for granting loans up to 65% of the appraised land value will be considered. We believe the proposed amendments simply beg the entire question of farm credit requirements.

It is not known what effect can be expected by increasing the maximum loans, if the inflexibility of Board lending policies continues. We observe that loans made by the board to prairie farmers in the year ending March 31, 1955, averaged only from \$3,000 to \$3,800—an unrealistic amount in terms of present capitalization costs.

The increase in the appraised value under which loans may be made from 60% to 65% will do nothing to assist in the rehabilitation and establishment of small operating farmers, young farmers, and tenant farmers. Smallness of previous loans extended by the board indicates that assistance has been largely limited to established farmers who required only marginal means of credit.

Instances have come to our attention of small operators who desired to enlarge their holdings, but because of the lengthy period required in processing loans, the opportunity for purchasing land was lost. This further indicates the need for greater flexibility in C.F.L.B. lending policies. By the too-cautious policies followed by the Board in extending loans, the human value and initiative of the applicant himself has little consideration.

The Veteran's Land Act Administration, to the contrary, has been less formal with its applicants and extended managerial assistance where necessary.

The matter of interest charges on C.F.L.B. loans, too, should, in our opinion, be reviewed. When only 3½% interest is charged for Veteran's Land Act loans, it is difficult to justify a 5% interest rate for those people who are ineligible to apply for V.L.A. assistance.

Credit requirements for the three classes of farm people we have described are met in the United States through the Farmers Home Administration Act of 1946. Under this agency, "credit is provided for specific types of farmers who

cannot get the financing they need elsewhere at reasonable rates and terms. Credit is supplemented where necessary by assistance to borrowers in planning and adopting sound farm practices which will promote success in farming."

RECOMMENDATIONS

In conclusion, we place for consideration by this committee in its studies of proposed amendments to the Canadian Farm Loan Board Act, the following recommendations:

(a) That the terms of reference for this Act be so broadened as to allow for its optimum application towards assisting in the establishment and rehabilitation of those classes of farm people who presently are unable to obtain credit elsewhere, and so raise their general standards of efficiency and livelihood.

(b) We recommend that the interest rates on long-term loans be lowered to a rate not in excess of $3\frac{1}{2}\%$ as is presently being paid for V.L.A. loans.

(c) We recommend that the basis for calculating loans be raised from the proposed 65% of the appraised value to at least 80% of the actual purchase price of lands.

(d) We recommend that the maximum loan principal be increased to \$20,000 and that a sliding scale for repayment be graduated downward from 40 years to complement the size of the loan and ability for repayment of the applicant.

(e) It is our suggestion that present amendments to the Canadian Farm Loan Board be considered only as a temporary device and that this committee recommend to the House consideration to the possibility of forming one credit administration out of the numerous agencies presently in operation, so designed as to handle efficiently and economically the credit requirements of all farm people for the greatest possible benefit of agriculture and our society as a whole.

APPENDIX "B"

ALBERTA SUGAR BEET GROWERS

Lethbridge, Alberta

APRIL 6, 1956.

Hon. J. W. G. Hunter,
Chairman,
House of Commons Banking Committee,
Ottawa, Canada.

Dear Sir:

The Directors of the Alberta Sugar Beet Growers are especially anxious to see the Canadian Farm Loan Act increase its services more in line with present requirements as proposed in the amendment to the legislation.

There is a great industrial expansion and improved employment generally across Canada while agriculture is in a seriously depressed condition especially in some areas because of lower prices, restricted market and increased costs. Under these conditions many young men are leaving the farms and finding employment in industry and construction. This condition is serious and it seems that Agriculture, the basic industry, is being temporarily abandoned by many young men. Late Dominion statistics state that the average age of farmers in Canada is 57 years and the present trend indicates that this might get worse.

On a family size irrigated farm there is little chance for a quick profit but there is an assurance of a good living for a family if agriculture bears a fair relationship to the general economy of the country. The density of population in an area where sugar beets and other specialized crops are grown make for good social environment, where schools, churches and recreational facilities are available to all, in towns or small communities within a reasonable distance from their homes.

High cost of land, buildings, machinery, for this type of farming as well as costly operating expenses, makes it practically impossible for a young man to start farming on a practical basis with an economic unit unless long term credit is available. Seldom can the older farmers or fathers of boys who might want to farm build up enough cash reserve that they can retire on their savings, they must get a substantial amount of money from their capital investment in land and machinery. The farm will not properly sustain two families so the young men are going to the cities, finding employment and often buying homes under N.H.A., and the father is renting the farm or selling to someone who can make sufficient down payment. If a similar amount of money that the son now gets under N.H.A. could be loaned to him by the Canadian Farm Loan Board, the father could receive enough to move to town and rent or buy a small place if he wished to leave the farm home to his son and both would be taken care of.

In 1954 Alberta Farmers borrowed \$714,000.00 under farm loan act, this is equal to sixty \$12,000 N.H.A. homes. A recent issue of the Calgary Herald stated that home building permits under N.H.A. had been issued recently for \$3,500,000.00.

This contrast does not seem too great and we are pleased to see that the Government of Canada is considering a more realistic loan arrangement so that Agriculture will be placed more in line with the position it merits in our National economy.

Yours very truly

Board of Directors,

Alberta Sugar Beet Growers

Per: L. R. JENSEN,

President.

APPENDIX "C"

EASTERN IRRIGATION DISTRICT

BROOKS, Alberta,

APRIL 4, 1956.

Mr. J. W. Hunter, M.P.
Chairman,
Banking Committee,
House of Commons,
Ottawa, Canada.

Dear Sir:

We beg to submit the following statements which we believe to be worthy of consideration when revisions of the Farm Loan Act are being discussed.

Agriculture is a Business, it is also a Way of Life. Contrary to the belief held in many parts of the East, the majority of farms in Alberta are family farms, owned and operated by the resident farmer and his family. These

are the farms that continue to operate, in good times and bad, and lay the foundation for a successful agriculture and worthwhile citizenry.

Many of our farms have been operated by men who developed them from homesteads, and over the years have built and added to their original holdings in order that theirs would be a well and economically operated unit. Now we find that many of the older families wish to retire and sell their farms to their sons. With the high cost of machinery, necessary to operate any farm, in most cases the farmer's son is unable to find sufficient capital wherewith to purchase either his father's place, or any other farm on terms which he can meet, by annual payments.

We definitely need in Western Canada some improved type of long term agricultural credit, for the purchase mainly of farm land. The experience gained across the line in States like Indiana should not be overlooked. With the present industrial boom, too many of our younger men and women are seeking employment and homes in the cities, despairing of their opportunities of procuring farms for themselves.

Some one in Farm Loan Board circles had at some time in the past promoted the belief that irrigation farms in Southern Alberta, by being liable for annual irrigation rate levy, were too risky an investment for Farm Loan Board participation. The experience of the Department of Veterans Affairs has shown that belief to be a fallacy.

In 1935 in the latter part of the depression seven hundred farmers in this District entered into a new twelve year contract for the purchase of their farms. Before the contract expired over 90% of the contract holders had met the payment in full and were able to take titles. We have opened and developed new farm land since then and have now a total of 1,300 farms, of which 80% of the operators now have title, demonstrating that these farms, under normal crop conditions will produce sufficient to pay for themselves.

Irrigation farms with their guarantee of water for optimum crop growth are an asset to the country, and when properly operated will show as good record of production and payment as any group of farms in any other good agricultural area in the Province. However, the average age of our operators is climbing. We need to arrange credit so that younger-stronger men can take over. Banks cannot finance land purchase over a period of years. Mortgage firms have limits under which they operate.

A revision of the Farm Loan Board Act, to arrange wider credits under reasonable repayment terms, with intelligent supervision, is one of the vital needs of Progressive Agriculture today. As conditions have changed for production in agriculture let us also endeavor to have assistance available, knowing that the producers need longer term credits to carry on their operations.

Respectfully submitted,

(sgd.) CARL J. ANDERSON,
General Manager.

APPENDIX "D"

LETHBRIDGE CENTRAL FEEDERS ASSOCIATION LIMITED

LETHBRIDGE, ALBERTA,
APRIL 6, 1956.

The Banking Committee of
The House of Commons of Canada,
Ottawa, Ontario,
Canada.

A BRIEF RESPECTING FARMERS MORTGAGES

Whereas the House of Commons Banking Committee are considering an increase in mortgages to farmers under the Canadian Farm Loan Board, and whereas the Lethbridge Central Feeders Association Limited feel they have information which would be pertinent to this consideration, we hereby present the following brief.

The Lethbridge Central Feeders Association Limited, hereinafter called "The Association", consists of a co-operative group of approximately one hundred and sixty Farmer Livestock Feeders, and represent a good cross section of the Irrigated Farmer of Alberta. In the year 1952, before the outbreak of the Foot and Mouth Disease, the members of the association throughout southern Alberta, had livestock on feed valued at 2,618,000 dollars. Many of these livestock were nearly ready for market as at February 22, 1952. Upon the outbreak of the Foot and Mouth epidemic in southern Saskatchewan, the United States border was closed for the export of beef and mutton. The B.C. borders were closed shortly afterward, and there was no available market between Alberta and the Ontario border which was also closed.

According to the advice of the Minister, the feeders held their livestock, in some cases turning them out, but in the case of highly fed and finished cattle lambs, this was impossible and they continued to feed them, selling them some five to six months later at prices one third reduced from that at which they had been purchased. Many of these members did not realize the original cost of their cattle leaving alone the cost of feed, labour and other charges, which amounted in 1952 to at least 100 dollars per bullock.

Those who held onto their livestock and carried them over another year, were even less fortunate. As the price continued to depress, and by the time they had given them two years feed, and sold at prices reduced by half, they were left owing the association large sums of money. On the 31st of July, 1952, the fiscal year end of the association, the members were holding a carry-over according to the advice from the Minister, of cattle and unpaid balances of 1,043,000 dollars. By July 31, 1953, one year later, this carry-over was reduced to 436,800 dollars. One year later, the figures stood at 247,000 dollars. July 31st, 1955, it was down to 150,000 dollars. There was approximately 50,000 dollars of the original 2,618,000 dollars that was lost completely to the association.

The prime conclusion which we wish to draw from these figures, is the time it took for these men to recover from the blow which they suffered. Our Board of Directors estimate that complete recovery from that disaster would take from five to ten years with three or four of our members never recovering, as they were put completely out of business. From this, it can be seen that our members are not as yet recovered from the disaster.

The greatest need, shortly after the time of the disaster, was for long term financing, but it was found that up until 1954 and 1955, mortgages on

irrigated farms were practically impossible to obtain. Since that time, it has been observed, that some mortgages have come through as small long term loans, but they are not sufficient.

Had there been mortgage money available, these men who were so seriously hurt by the Foot and Mouth epidemic, would have been able to place their losses on a long term repayment basis and carry on their normal operations, instead of operating on a reduced scale for several years, until they could re-establish their credit.

We would make one further observation. The young men in our organization are leaving the farms, and leaving their older fathers to carry on the farming operations. The reason being, in our estimation, the high cost of getting established in a farm of their own and the burden of Income Tax in attempting to repay short term loans used for getting established. The alternative to this, would of course, be longer term, low interest mortgages, allowing these young men to purchase farms, and pay for them without having to earn such income as would place them in a high tax bracket. We respectfully submit this brief.

Lethbridge Central Feeders Association Limited,

H. G. HOULTON, *President*,
S. W. HATCH, *Secretary-Treasurer*.

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Canada Banking and Commerce
Standing Committee on 1956

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

Bill 84

An Act to amend the Canadian Farm Loan Act

TUESDAY, APRIL 17, 1956

WITNESSES:

Mr. George Wyndlow, Director, Vancouver Island Jersey Milk Association; and Mr. F. L. Chester, Commissioner, Canadian Farm Loan Board.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

| | | |
|-----------------------------------|------------------------------|---------------------------------|
| Argue | Fulton | Nickle |
| Ashbourne | Gour (<i>Russell</i>) | Pallett |
| Benidickson | Hanna | Philpott |
| Blackmore | Henderson | Power (<i>Quebec South</i>) |
| Bryson | Hollingworth | Quelch |
| Cameron (<i>Nanaimo</i>) | Huffman | Richardson |
| Carrick | Johnson (<i>Kinderley</i>) | Robichaud |
| Charlton | Low | Rouleau |
| Crestohl | Lusby | St. Laurent (<i>Temis-</i> |
| Deslieres | Macdonnell (<i>Green-</i> | <i>couata</i>) |
| Enfield | wood) | Thatcher |
| Eudes | MacEachen | Tucker |
| Fairey | Macnaughton | Valois |
| Fleming | Matheson | Viau |
| Follwell | Michener | Vincent |
| Fraser (<i>Peterborough</i>) | Mitchell (<i>London</i>) | Weaver |
| Fraser (<i>St. John's East</i>) | Monteith | White (<i>Waterloo South</i>) |

Eric H. Jones,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,
THURSDAY, April 12, 1956.

Ordered,—That the name of Mr. Deslieres be substituted for that of Mr. Cannon on the said Committee.

FRIDAY, April 13, 1956.

Ordered,—That the name of Mr. Lusby be substituted for that of Mr. Balcom; and

That the name of Mr. Low be substituted for that of Mr. Johnston (*Bow River*), on the said Committee.

MONDAY, April 16, 1956.

Ordered,—That the name of Mr. White (*Waterloo South*) be substituted for that of Mr. Bennett on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

TUESDAY, April 17, 1956.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Argue, Ashbourne, Benidickson, Blackmore, Bryson, Cameron (*Nanaimo*), Carrick, Charlton, Fairey, Fraser (*Peterborough*), Fraser (*St. John's East*), Gour (*Russell*), Huffman, Hunter, Johnson (*Kindersley*), Low, Macdonnell (*Greenwood*), Philpott, Robichaud, Thatcher, Viau and Weaver.

In attendance: Mr. George Wyndlow, Director, Vancouver Island Jersey Milk Association; and Messrs. F. L. Chester, Commissioner; E. O. Bertrand, Member; W. A. Reeve, Secretary; and R. McIntosh, Chief Accountant; all of the Canadian Farm Loan Board.

The Committee continued its consideration of Bill 84, An Act to amend the Canadian Farm Loan Act.

The Chairman read a telegram addressed to Mr. Colin Cameron, M.P., viz.,

NANAIMO, B.C., April 15, 1956.

The Vancouver Island Jersey Milk Association authorizes their delegate director George Wyndlow to present a brief to the Farm Loan Board enquiry commission.

David Fisher, president, and
Barney Wilson, secretary.

The Committee having agreed to hear Mr. Wyndlow, he was called. He read a brief purporting to be of the Vancouver Island Jersey Milk Association, copies of which were distributed to the Committee. He was questioned thereon and was retired.

Mr. Chester spoke briefly in regard to certain matters referred to in the brief. He expressed the opinion that to deal fully with the brief would doubtless entail the discussion of confidential information concerning Mr. Wyndlow.

It was moved by Mr. Charlton, seconded by Mr. Thatcher,

That the Sub-committee on Agenda and Procedure meet with officials of the Canadian Farm Loan Board, with Mr. Wyndlow present, and review the case presented by Mr. Wyndlow.

Following debate, the motion was negatived: Yeas, 10; Nays, 10; the Chairman casting the deciding vote.

Mr. Chester was further questioned on the operations of the Canadian Farm Loan Board.

At 1.00 o'clock p.m., the Committee adjourned to the call of the Chair.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

APRIL 17, 1956.
11.00 a.m.

The CHAIRMAN: Order gentlemen, let us begin. Mr. Cameron from Nanaimo has advised us that Mr. Wyndlow, who was here earlier and whom the steering committee recommended should not be heard in his individual capacity, has been authorized by the Vancouver Island Jersey Milk Association, of which he is a director, to present a brief on behalf of the association to the Banking and Commerce Committee. Mr. Cameron has further stated that Mr. Wyndlow would be available for the meeting of the committee today. I see here a telegram addressed to Mr. Cameron, stating:

The Vancouver Island Jersey Milk Association authorizes their delegate director, George Wyndlow to present a brief to the Canadian Farm Loan Board Enquiry Commission.

David Fisher, President and
Barney Wilson, Secretary.

I believe Mr. Wyndlow is here, is he not?

Mr. WYNDLOW: Yes, sir.

Mr. CAMERON (*Nanaimo*): He is here, Mr. Chairman.

Mr. CHAIRMAN: Mr. Wyndlow has come a long way from the island, gentlemen. I understand his presentation will not be a lengthy one, and if it is agreeable to you I would ask that all those in favour of hearing him now should signify by raising their hands.

Is there any opinion to the contrary?

Then Mr. Wyndlow, I wonder if you would come forward. There are copies of the brief here, and I will ask that they be distributed.

Mr. David Kirk, Secretary of the Canadian Federation of Agriculture, telephoned to the clerk of the committee and asked me to convey to the committee the thanks of that organization for the hearing it gave to Mr. Broderick and Dr. Hope last week. Mr. Kirk emphasized that the Federation is very interested indeed in bill 84, but none of its officials will be able to attend further sittings of the committee on that bill because they are heavily engaged in attending other committees and meetings. The Federation wishes the committee to know that their non-attendance at future sittings of the committee is not due to any lack of interest in the amendments to the Farm Loan Act.

Mr. Wyndlow, would you care to commence the reading of your brief? I think it will be better to read it because nobody here has yet had an opportunity of becoming acquainted with it.

Mr. George Wyndlow, director, The Vancouver Island Jersey Milk Association, called.

The WITNESS:

It seems probable that this committee can obtain a clearer picture of the impact of the present administration of the Farm Loan Board upon the

agricultural and general economy of the country by a consideration of a specific example, and as the position of my wife and myself is no doubt fairly typical, I make no apologies for introducing our own affairs to the attention of your committee.

My wife and I have been farming for the past 24 years, during which time we have endeavoured to raise and educate a family of five children, and at the same time develop a farming operation capable of producing a reasonable income—all from a start consisting of a \$500 equity in a quarter section in central Alberta.

Possibly the committee will accept the above as explanation for our continuing attempts to seek all the financial assistance which has allegedly become available from time to time through various government schemes and regulations set up ostensibly for the express purpose of promoting and facilitating agricultural endeavours.

Details of these attempts and their results are as follows:

1932. Applied for the \$600 advance supposed to be available to holders of land from the dominion, provincial and municipal governments. Land inspected and approved. After six months delay, application refused.

Reason—Action would create a precedent.

1933. Application to Dominion Agricultural Credit Corporation for \$250 advance to purchase the foundation stock for our present herd. After several months negotiations, application refused.

Reason—No guarantee that sufficient feed supplies were on hand to feed four animals. Pure rot of course.

Money thereupon obtained in five minutes from the Bank of Montreal. Animals purchased for \$135. Money repaid in full in nine months. Herd, to which no other females have ever been added from outside sources, now number 70 head; and \$10,000 worth of animals have been sold from it—some exported to California and Tennessee.

1941. Application to Farm Loan Board for \$1,500 mortgage on quarter section (Alberta) for the purpose of taking advantage of offer by the official administrator, Edmonton, of substantial reduction in the amount due on agreement for resale, in return for cash settlement.

Result—Board required first mortgage and additionally chattel mortgage on all other assets. Total security asked \$15,000. Terms refused by us on advice of our bank manager who pointed out that no working capital could be provided us by the bank if such arrangement were entered into.

Property sold four years later for \$6,500, practically all cash.

1945-46. Application to Industrial Development Bank for capital to extend and equip a rapidly expanding and very profitable cream candy business, based upon the production of our jersey herd.

Result—After several months of negotiation application refused.

Reason—We were stated to be indulging in speculation in land!

As we have never bought and sold any land except the Alberta quarter section, the sale of which was (to our great regret) forced upon us by the action of the Industrial Development Bank, the ludicrousness of the bank's attitude is obvious. This action by the bank virtually closed down the candy business as a main line of endeavour, and shut off revenue to the Department of Inland Revenue of several hundred dollars per year, which would certainly have been greatly increased. This also necessitated a complete re-vamping of all our economic plans and arrangements and caused us an undoubted inestimable loss.

1947. Application to the Farm Loan Board to re-finance mortgage of \$9,375 which we assumed on our present property in B.C. Application refused.

Reason—Property stated to be unable to support so much debt. Advised that mortgage of \$4,000 would be considered by the board.

1950-51. Renewed application to the board for \$4,000 on the strength of the above, when mortgage reduced to that figure.

Result—Refused because of existence of debt for working capital to the Bank of Nova Scotia.

1954. Mortgage of \$9,375 (considered by the board to be too much for the property) entirely paid off out of earnings.

1955. Application for a farm improvement loan for approximately \$1,500 for part payment of essential machinery made through the Bank of Nova Scotia.

Refused.

Reason—You tell me. I have never been able to find out.

This amount was financed through the Canadian Acceptance Corporation at a cost of \$175 over bank interest charges. Very heavy additional expense was incurred in loss of time and costs of emergency negotiations. Half of this debt has already been paid.

1955 Application to Farm Loan Board for \$12,000 to liquidate all outstanding liabilities in order to reduce amortization charges to a figure, which will permit my wife and myself to retire, turn the operation over to our two sons, and draw a reasonable income from it.

Result—Application refused.

Reason—Because the Farm Loan Board

- (1) are unable to understand a financial statement,
- (2) are certainly not interested in being of any assistance whatsoever,
- (3) place archaic valuations on everything,
- (4) did not conduct proper valuation of assets,
- (5) are so completely hide-bound by regulations that various assets and sources of income are treated as being non-existent,
- (6) are not interested in and do not consider earning power,
- (7) place no valuation whatsoever upon ability, integrity and capacity—in other words, character—and ignore completely record of performance,
- (8) are clearly completely ignorant of the complexities and requirements of modern farming.

In every single instance in which the government agencies referred to above have decided against providing the assistance for which application was made, they have been proved completely and overwhelmingly wrong by subsequent events. This however means nothing whatsoever to them, nor have any of these agencies—and particularly the Farm Loan Board—the slightest qualms of conscience over the enormous losses which have been caused to my family and myself by their flagrant failure. It is no exaggeration to say that the lives of my wife and myself have been largely ruined by our inability to obtain the assistance which we needed and which we should have been able to obtain without difficulty. The chartered banks and the Brackman-Ker Milling Company, who are certainly faced with no difficulty in finding safe 5 per cent investments for their available assets, have been of very great—in fact invaluable—assistance to us and have in large measure taken over the functions for the performance of which the Farm Loan Board was especially created. It has

been our great good fortune that these organizations have been actuated by and exhibited a sense of public responsibility, which is so obviously lacking in the Farm Loan Board.

Subsequent to the last refusal of \$12,000 by the Farm Loan Board, we have established with the Imperial Bank a line of credit of \$10,000 secured only by section 88—Security on our herd of cows (original cost \$135), and my life insurance policy. At the same time, the Brackman-Ker Milling Company are carrying for us an open account of approximately \$5,200 against which they have never sought any security whatsoever, part of the latter amount covers 1956 fertilizer requirements.

It is absolutely essential now that I retire at 62 years of age. I have had, thanks to the Farm Loan Board, only one holiday in 24 years, and both my wife and I are worn out. Our sons are 25 years old and more than competent to operate. They require a proprietary interest in the operation and I doubt if I can hold them without giving such an interest, even if I wanted to, which I don't.

As a result of our continuing investments in equipment, the gross income of our operation has been built up to an amount well in excess of \$1,000 per month, with a net income showing a continually increasing trend. While the ratio of current assets to current liabilities in our financial statement is not and never has been much better than one to one, the reasons for the maintenance of this condition are obvious to anyone who takes the trouble to analyse our affairs closely. It is of course primarily due to the presence in our current liability classification of debts which are exclusively of a capital nature and should be on a long term basis. It is this condition which has at all times been a source of trouble and expense to us and an economic mill-stone around our necks. We are always under the necessity of too rapid repayment of liabilities, and this has occasionally involved us in very expensive short term financing outside the banks.

The only alternatives to the maintenance of the strained financial condition are long term financing which has been steadfastly and obstinately denied us, or stagnation, which in our opinion is tantamount to failure.

Now we need and must obtain the limited long term help heretofore denied us; and we can find no conceivable reason why it should not be forthcoming. We do not want to see the lives of our two sons ruined in the way ours have been ruined by bureaucratic incompetence and indifference.

I suggest to this committee that unless much greater elasticity and a vastly improved standard of economic and agricultural knowledge is injected into the administrative practice of the Farm Loan Board, any other changes in the act will prove of fictitious value.

As it now stands, the board literally constitutes—and I mean this earnestly—a menace to the people it is supposed to help. Those, like ourselves, who have supposed—as we were meant to suppose—that financial assistance in case of emergency or opportunity would be available through the board have found themselves subjected to bitter disappointment, frequently severe damage and have been the apparent victims of what can only be described and is generally thought of as contemptible government hoax.

Respectfully submitted by

THE VANCOUVER ISLAND JERSEY MILK ASSOCIATION

THE CHAIRMAN: You have heard the brief. Are there questions which members of the committee wish to ask? I would ask you to raise your hands so that we might get some order into this.

Mr. CARRICK: I am wondering whether it is the function of this committee to go into complaints of this kind. It seems to me that this committee would find

it impossible to get the real facts without having someone from the Canadian Farm Loan Board to take up each complaint which the witness has made.

Mr. GOUR (*Russell*): No, I do not think we can take up this complaint.

Mr. MACDONNELL (*Greenwood*): I notice that this brief is submitted from the Vancouver Island Jersey Milk Association. Perhaps you would explain to us what this association is and say something with regard to its acceptance of what you have placed before us.

The CHAIRMAN: Yes, perhaps Mr. Wyndlow would explain that.

The WITNESS: The organization is the local association of Vancouver Island, small in numbers and confined, of course, to Jersey breeders. I am a member of that association, in addition to belonging to a number of other associations such as the Coast Vegetable Marketing Board—

Mr. MACDONNELL (*Greenwood*): Can we take it that they have seen this document and approved it?

The WITNESS: No, they have not seen it. May I explain that by saying that I left without the knowledge that it was necessary to represent an association. I understood from a broadcast on the C.B.C. that individual submissions would be accepted and I made no attempt to obtain the backing of any organization. I could have obtained, I know, the backing of this one and several others if I had thought it was necessary. The British Columbia Jersey Breeders Association of which I am a director appointed me to submit the brief on their behalf to the royal commission on milk in Vancouver some months ago, and on that occasion also they had no knowledge of the brief I was going to submit; none of them had ever seen it and they knew nothing about it until it was presented; then it was presented with their direct authority, in the same way as the present brief.

Mr. CAMERON (*Nanaimo*): I may say that I had a telegram yesterday morning from the president and secretary of this organization asking me if I could arrange for Mr. Wyndlow's appearance before the committee on their behalf.

Mr. ROBICHAUD: The brief you have placed before us is a record of your personal experience; it does not represent the association. What answer have you to that, Mr. Wyndlow?

The WITNESS: I would say that I was submitting this brief on behalf of all those who are engaged in farming in the lower half of British Columbia. I have had a good deal of contact through the Brackman-Ker Milling Company, who are very much involved in this question of credit to milk producers, with the experiences of other farmers in the area and they have made it clear to me that the policy of the Canadian Farm Loan Board with regard to financing people in a position similar to my own was having a harmful effect on farm business generally; also, that it was having a similar effect on the affairs of this company, because they have reached a stage where they cannot continue to carry people in the way they have done in the past. They feel they are carrying people who should be carried by the Canadian Farm Loan Board, and it was really as a result of my conversation with the credit manager of the milling company that I decided to come down here and present this brief.

By Mr. Cameron (Nanaimo):

Q. Can you tell the committee when you received your first intimation of the committee hearings on the Canadian Farm Loan Act?—A. I cannot give you the exact day, but I think it was about two days before it was necessary for me to leave to come down here. I had about 40 hours notice before it was necessary to leave.

Q. The only intimation you had was in a broadcast?—A. Yes.

By Mr. Macdonnell (Greenwood):

Q. Well, Mr. Chairman, we have heard this statement from a responsible citizen, and it makes a good many criticisms of the Canadian Farm Loan Board. I would hope, myself, that the officials of the board will wish to deal with them, and I would hope we might have their answer, because on the face of it this is a disappointing document. May I make this as a request; that we ask the officials of the board to look at this case and let us know their comments on it, because here is a *prima facie* criticism which certainly does go to the root of the matter; it is the kind of situation which is in all our minds when we are considering whether this organization has been run too much as a cautious money-making concern or whether it has been run as an organization intended primarily to help the farming industry?

The CHAIRMAN: Mr. Chester will be a witness here and I am quite sure he will be prepared to answer any questions and give the committee any information he can obtain, provided it is relevant and provided he can disclose it. Mr. Chester will be the next witness, but I thought that if there were any questions to be asked of Mr. Wyndlow we could dispose of them now.

By Mr. Thatcher:

Q. There are three or four questions which I would like to ask, Mr. Chairman. The first is this: do I take it from this brief that the witness feels the credit facilities which are available from the Canadian Farm Loan Board today are inadequate?—A. If the act was administered in an elastic manner I think the facilities of the act would be sufficient for a considerable proportion of the requirements, although we all know that the value of money is continually decreasing and that the requirements of capital for farming purposes are continually becoming larger. So that some expansion of the operations of the board would be necessary anyway. But as matters stand I do not think it makes any difference whether the board is authorized to advance 50 or 80 per cent of the appraised value of a farm because the appraisals are, as I understand it, made on such a low basis that they are completely inadequate. As an example of that, may I tell the committee my understanding is that land in the Chilliwack area of the Fraser Valley, which has been selling for many years at well over \$1,000 an acre, is being valued for loan purposes at \$75 an acre.

Q. Would you tell the committee what the specific changes are which you consider should be introduced to make the act effective?—A. In the first place, appraisals should be much more generous than they are at present. I think that they could reasonably be based on the assessed value of the land for tax purposes. I think the board should not be required to operate on a basis of very closely restricting regulations. I think it is ridiculous to set up a series of regulations made at the centre which are supposed to cover all farming conditions across Canada, because farming conditions differ so radically in different areas of the country that any set of regulations could not possibly be applicable everywhere.

As a specific case in support of this contention, I would point out that we have a considerable acreage of quite valuable forest land which is an integral part of our operation and which produces an income every year. I mentioned that specifically to the appraiser, and to the manager of the Canadian Farm Loan Board in New Westminster, and he informed me categorically that he was not allowed to consider this forest acreage, and that as far as the Canadian Farm Loan Board was concerned that source of income did not exist.

By Mr. Benidickson:

Q. Before we go any further with this matter it seems to me that if we pursue this matter further the committee should know whether or not we are going to be able to get the other side of the picture. Will Mr. Wyndlow give the board authority to produce to this committee any documents related to these former applications to the board which, of course, would usually be regarded as confidential and which would involve, I would think, a statement as to his assets and liabilities and with regard to other matters which would normally not be revealed?—A. Certainly, Mr. Chairman.

By Mr. Thatcher:

Q. Can we assume from this brief, Mr. Wyndlow, that when you went to the banks to obtain money you found it easier to obtain money from them than from the Canadian Farm Loan Board?—A. Very definitely. By and large, I had to obtain the money I required from the banks. I have financed my operations continuously through the banks. But that involves rapid repayment, of course, and I have, I suppose, \$10,000 worth of liabilities now which should be on a long term basis. Instead, they must be repaid on a monthly basis. I am having to repay about \$350 a month right now.

Q. Would you think, then, that the answer to the long-term farm credit problem might not lie in extending this particular act but, rather, might be for the federal government to guarantee the banks in some way with respect to loans they make to farmers on long-term credit? In other words, do you think we might be wise to pass an act somewhat similar to the legislation which concerns the building of houses for urban residents?—A. I presume you mean something after the style of the Farm Improvement Loans?

Q. Well, we loaned money to urban residents to build homes over a 30 year period, or, rather, the banks do. If we could make some provision for loans to farmers over a 30 year period it would not cost the taxpayers any money, and it would insure that the farmer could get long-term credit from the banks without a government agency having to be brought into it.—A. I spent a good many years in the service of a bank before I became a farmer, so I realize that the banks do not like to tie up their money for 30 years, whether the loans were guaranteed by the government or not.

Q. But they do it in the case of homes?—A. Somewhat reluctantly, I think. In principle, I would say very definitely the answer would be "yes" because we have seen from the action of the farm improvement loans—although I had an application for one turned down—that they are of value and I still think that the system works very well; a great deal of money is advanced without very much "red tape" being attached to it and I think it has all, practically, been repaid. The bulk is "right on the job" and conversant with local conditions in a particular area with the result that it is much better qualified to deal with a borrower than the representative of the Canadian Farm Loan Board, as the board is set up at present. I say that because we have to go to New Westminster for any contact with the board. Farm conditions and market conditions are completely different on Vancouver Island from those prevailing on the mainland, and it is difficult, probably, for the board to adjust itself to these things. Basically, I think, your suggestion is very good if the long-term element and the difficulty it produces could be overcome.

By Mr. Macdonnell (Greenwood):

Q. At the top of page 2 of your brief there is a figure which puzzles me. It speaks of an application to the Canadian Farm Loan Board for a \$1,500 mortgage on a quarter section in Alberta. Then you state that the board

required first mortgage and, additionally, chattel mortgage on all other assets, and that the total security asked was \$15,000.—A. The farm was worth \$6,500 and was subsequently sold for that amount. We also had between 50 and 60 head of cattle in addition to machinery. The board required mortgage security on the whole lot—everything we possessed—and there would have been nothing left to be used as security for borrowing money for seasonal requirements or working capital.

By Mr. Cameron (Nanaimo):

Q. This was required in order to take advantage of the opportunity to buy an additional parcel of land?—A. No, it was to enable us to make a cash settlement on buildings that were not on our agreement for sale, and we were offered, I think it was, \$400 reduction in the principal amount if we could make this cash settlement. So we lost that \$400 reduction completely.

By Mr. Viau:

Q. What amount of land did this quarter section constitute?—A. One hundred and twenty acres of cleared land—the usual type of soil in centre Alberta—deep black loam, very productive, and the balance—40 acres—in bush.

By Mr. Low:

Q. Where, in British Columbia, does one have to make an application to the board?—A. New Westminster.

Q. Is that the only Canadian Farm Loan Board office in the area?—A. I believe so, yes. I believe it is the only office for the whole of British Columbia.

Q. Is there any attempt being made in your province by the board to have regional advisory committees?—A. No, not as far as I know.

Q. Did you find very much delay in getting a decision from the board after you had made application?—A. No, no delay at all. I got an immediate refusal in each case. I got the impression that the board simply did not bother to consider the application at all.

Q. But they sent an appraiser up to the farm?—A. Yes. They sent an appraiser immediately, but I do not consider that he made a proper appraisal at all. He spent more time measuring the size of the buildings than doing anything else. He seemed very little interested in the land and he certainly did not see 25 per cent of our equipment even though the type of farming in which we are engaged would be impossible without expensive equipment.

Q. Do you think that the man who came to your place was trained for his job?—A. We asked quite a number of leading questions and I gathered he had been at it for a great many years. We also gathered that he was longing for a moment when he could retire, because he was bored to death with the whole thing.

By Mr. Viau:

Q. You stated you met with an immediate refusal. Was that after the interview in the office, or after the appraisal was made?—A. The appraisal was made and the forms sent in. I think that within 48 hours I had the refusal by mail.

By Mr. Argue:

Q. You confine most of your evidence to your personal experience with the Canadian Farm Loan Board Officials. From your own knowledge, do you

know of other people in British Columbia who have had experiences similar to your own—is your case typical, or is it an isolated case?—A. I have tried to judge that matter from my conversations with the Brackman-Ker Milling Company. I have had long consultations with them, and they have given me a great deal of information drawn from their experience of the board, and they have stated to me very definitely that my experience is absolutely typical of what is going on all over the Fraser valley. They have, themselves, tried to assist various farmers to obtain loans which they considered were absolutely justified; they have helped them to make their statements, and so on, but have never been able to get anywhere. That is the story they told me, and that is the main reason I came here to Ottawa.

By Mr. Macdonnell (Greenwood):

Q. Is it fair to infer that they have treated a number of people as they have treated you, or is yours an exceptional case?—A. The credit manager and the company's comptroller from Toronto, the main office, was out in British Columbia about a month ago, and they informed me then that their loans were becoming so vast that they would shortly be faced with the problem of revising their whole program of carrying the operators. They were very much concerned with the situation. I understand their receivable accounts amount to millions of dollars.

Q. And their business has to do entirely with milling?—A. They provide seed and feed and fertilizer—all the requirements, practically, of a farm.

Q. As they are not a charitable institution I take it they are doing this in order to get raw material for their operations?—A. They are carrying farmers because, in many cases, the farmers have been dealing with them for years and years, and naturally they want to keep them in business.

By Mr. Low:

Q. This is just another example, I take it Mr. Chairman, of a condition we find more or less throughout all the farming areas of Canada—the merchants and the businessmen are the bankers for the farmers and they are the only unsecured creditors.

The CHAIRMAN: Is that a statement or a question Mr. Low?

Mr. Low: It is just an observation.

The WITNESS: As far as I am concerned they are totally unsecured. They have never asked me for any security at all.

By Mr. Fraser (Peterborough):

Q. On page 3 of the brief you say you made application for \$12,000 to liquidate outstanding liabilities and that you wanted to turn the operation over to your two sons. I want to ask you this question: have your two sons been brought up in the dairy business and in the business of breeding cattle?—A. Yes, we have been in this business for 24 years and they are 25 years old. They have worked continuously with me all that time.

Q. I take it they are good men?—A. I think they are absolutely first class. They are regarded as being good men.

Q. That is all I wanted to know.—A. If I may add this, I would like to subscribe to the statement made by Dr. Hope in regard to this question of handing the operation over to the sons. There seems to be no alternative way of transferring the operation except by means of the ability to obtain long-term financing. It is a very difficult thing in any event to set up a satisfactory profit-sharing arrangement between two or three different parties, even though they are father and sons. The easiest way would be to set up a limited liability

company, but unfortunately if you set yourselves up on that basis the Canadian Farm Loan Board would refuse to have anything to do with you at all, and there is simply no alternative source of long-term money available. Dr. Hope made that quite clear, I think.

The CHAIRMAN: Are there any further questions, gentlemen?

Mr. MACDONNELL (*Greenwood*): Without assuming that the board has no answer to this statement, I would like to say I feel grateful to Mr. Wyndlow for the trouble he has taken in coming here and putting his statement before us.

The WITNESS: Thank you.

The CHAIRMAN: Thank you Mr. Wyndlow. Are you going to remain here? I ask that because I presume this material will, probably, be answered by the board. Possibly we might get to the bottom of it, between the board and yourself.

The WITNESS: I cannot of course expect the board to reply without first giving some consideration to the matter, so I feel I should be unfair to the board if I did not remain until they have had an opportunity of answering.

Mr. BLACKMORE: Mr. Chairman, I would like to commend Mr. Wyndlow highly on his presentation and on his courage in coming here in order to give us the facts just as he saw them.

Some Hon. MEMBERS: Hear hear.

The WITNESS: I appreciate very much the opportunity of coming here today.

The CHAIRMAN: Thank you Mr. Wyndlow.

The next witness is the chairman of the Canadian Farm Loan Board, Mr. Chester. On his last appearance before the committee he really did not complete his case, but in view of the statements made by Mr. Brodrick, Dr. Hope and Mr. Wyndlow, and in the briefs which are on the record I thought Mr. Chester should be available here for questioning, if it is so desired. And possibly to make any statement he wishes in answer to the statements made by the other witnesses. Mr. Chester, do you wish to start off by making any preliminary statement or would you rather fit it into the form of question and answer?

Mr. F. L. Chester, Commissioner, Canadian Farm Loan Board, called.

The WITNESS: Mr. Chairman, I have no prepared statement to make but I think, perhaps, that Mr. Wyndlow's case might be disposed of and we could then deal with the case made by the Federation of Agriculture, which is probably the one in which you are most interested.

Our business is a confidential business and I think it would be a mistake if we ever divulged information that is given to us confidentially. I understand that Mr. Wyndlow says he is willing to have such information divulged. In that case then I would suggest that the best procedure would be along lines I am going to suggest. I am willing to discuss the matter with anybody, but I still think it should be dealt with in private if possible. I suggest that possibly a subcommittee of this committee could discuss the case privately then, after they have all the facts—and they are certainly not given here in the statement we have heard—if they wish to publicize Mr. Wyndlow's private affairs I would say the responsibility for that lies on the subcommittee and on the committee. Would that not be the best way in which to handle the matter?

I might, incidentally, point out now that we are not the only people who have refused Mr. Wyndlow loans. He has had eight refusals according to his brief, of which only three were from us. There must be a reason. We think we were justified in declining these loan applications. He suggests his sons

are ready to take over; we are waiting from him a reply on that point. He made that statement to us and we asked him for information, but he has not answered our letter as yet. We are interested in establishing his sons if it is possible for us to do so.

I think, so far as the Brackman-Ker Milling Company is concerned, that this firm is a producing outfit—a marketing company selling feed, fertilizer and other things to farmers on credit and if their account becomes delinquent they were delighted to turn it over to somebody else. It is a business proposition with the Brackman-Ker Milling Company, the same as it is at Ogilvies or any other feed company and, incidentally, I think they are owned by one of the larger milling companies. I do not think that is the only consideration; if they want us to make a loan to get their debt retired I do not think we should overemphasize the importance of that in granting a loan. That is all I have to say, Mr. Chairman and members of the committee; but I strongly suggest that this should be dealt with not publicly but privately. I think you would get along further if you appointed a subcommittee but, of course, I am in the hands of the committee and I will go along whichever way you direct.

Mr. WYNDLOW: It was stated, Mr. Chairman, that I did not reply to a letter written to me regarding the establishment of my sons. May I say that I have not received any letter that has not been replied to. I do not know of the existence of any such letter.

The WITNESS: That may be a matter for the committee to enquire into.

The CHAIRMAN: I will suggest, because it is not the practice of the committee to disclose private information even though in this case the party concerned has agreed that it may be done, it might be possible for the steering committee to go into this case. It is possible that the board knows something which, let us say, even Mr. Wyndlow does not know, that he might not want to be made public. That, as I say, is possible.

Mr. ARGUE: Is it your suggestion that Mr. Wyndlow should attend that meeting?

The CHAIRMAN: That was not my suggestion, no—

Mr. BENIDICKSON: I take it the steering committee would review what is on the files with regard to Mr. Wyndlow and then recommend to the full committee on what it feels should be done with regard to hearing further evidence from the board?

Mr. ARGUE: It seems to me that we should have the evidence of both parties available to this committee, and not only the evidence of one side, on the understanding that the evidence would be confidential at that point.

An Hon. MEMBER: Where are the records and when would they be available?

The WITNESS: This afternoon—tomorrow morning—any time which is satisfactory to the committee.

Mr. WYNDLOW: If any so-called private records are to be dealt with, I would like to be present when they are produced.

Mr. FRASER (*Peterborough*): That seems fair enough.

The CHAIRMAN: I am not sure this is a trial. Mr. Wyndlow has made certain statements in his brief. I think the steering committee should hear the board officials now, but I think these things should be held in private, because there may be matters referred to there which the steering committee may wish to recommend be kept confidential.

Mr. WYNDLOW: I fail to see that any damage could be done to anyone except myself and my family by anything that might be revealed, and certainly I still feel I should be present when any private material is brought up.

The WITNESS: I thought you were perfectly willing to make this information public.

Mr. WYNDLOW: As long as I am present.

Mr. BENIDICKSON: The steering committee would meet as representative of all parties, so they would be in a position to recommend to this committee what should be done in order that this committee should not set a precedent which we might regret, namely putting private matters on public record without looking at the circumstances carefully.

Mr. BLACKMORE: How could the committee, with any degree of accuracy, appraise the information given by the board unless Mr. Wyndlow were present to offer any clarification that might be needed, as he has indicated he would do?

Mr. GOUR (*Russell*): All they have to do is to reach that conclusion. It is an agenda committee.

Mr. MACDONNELL (*Greenwood*): Could we have the board officials appear before the steering committee and, separately, Mr. Wyndlow? Would that not meet the situation from his point of view?

Mr. WYNDLOW: No, Mr. Chairman, I would want to be present when material affecting myself is produced and discussed. I have made a public presentation. The board have not been prevented by me from doing so. I am not suggesting that the board should not make a presentation. All I want is the opportunity to be present when this is discussed, so that if any points arise which require clarification I can speak on them; and I believe that is only fair.

Mr. MACDONNELL (*Greenwood*): I made my suggestion because I thought it might be agreeable to both parties, but if Mr. Wyndlow feels he should be present, then I must agree that I feel it is only fair.

Mr. BLACKMORE: I think it is only fair too.

Mr. CHARLTON: Then I move that the steering committee meet, with Mr. Wyndlow present, at the convenience of the parties concerned and of the committee, as early as possible, so that Mr. Wyndlow need not remain in Ottawa too long.

Mr. VIAU: I would like to express my personal view on this matter. I think this committee has established a very bad precedent, inasmuch as this is a personal case and in no sense a brief from an interested organization containing suggestions for bringing about improvement to the Canadian Farm Loan Act.

The CHAIRMAN: My own view is that we are here to consider amendments to the Canadian Farm Loan Act. Mr. Wyndlow, almost under false pretenses in my opinion, has produced a personal brief which has been of no assistance in so far as the amendments are concerned.

Some Hon. MEMBER: No, No.

The CHAIRMAN: I am entitled to my opinion. You have expressed your views and I have listened patiently. I am pointing out that this brief is entirely a personal brief and there is nothing in it which would substantiate the assertions made in it except the evidence of the witness himself that it represents a general condition in the industry.

Mr. BLACKMORE: Did not Mr. Cameron (*Nanaimo*) go a long way toward establishing Mr. Wyndlow's acceptability to the organization out in British Columbia?

The CHAIRMAN: I think this committee has gone a long way in ever hearing such a brief. I think it is going a much longer way in authorizing the steering committee to hear the other side of the brief. This is something that I think is not relevant to the general legislation; it is an individual case, and it has now come down to being, almost, the trial of an individual. I think this is a

very unwise procedure and I think it is very unwise to get both sides present arguing back and forth. I do not think that is our function.

Mr. JOHNSON (*Kindersley*): This committee has paved the way for exactly this situation to happen by its action at our opening session. There was reluctance on the part of some members to hear briefs from any organizations and officials but at the insistence of certain members it was agreed that we should hear representations from various organizations. Rather than follow the advice of some members of this committee that we should send out invitations to bona fide farm organizations we committed ourselves to the policy of putting an announcement in the papers informing all and sundry that this committee would share representations from farm organizations. Mr. Gardiner has had something to say about the reliability of press and radio reports in the past. Mr. Wyndlow heard, over the radio, reports that this question was under examination and that witnesses would be heard; he took that at its face value and since he had a personal case which he thought would be of interest to the committee—and a case which has been described as being of interest by members of the committee—he decided to bring it to our attention. He later discovered, however, that the radio report was incorrect and in order not to waste his long journey he applied for and received the authorization of the Jersey Milk Association to present this brief.

I think we have set the path we must follow by our action in making that press release relate to all and sundry with regard to representations before this committee and I think we must be responsible, now, for following that through to its logical conclusion.

Mr. CAMERON (*Nanaimo*): Mr. Chairman, I would point out that it was not Mr. Wyndlow's suggestion that there should be a hearing before this committee; it was Mr. Chester's. It was Mr. Chester who made the suggestion that this matter should be gone into either by the committee itself or by a sub-committee and, of course, he pointed out that that would depend on the willingness of the other party to agree. But I want to point out that it was not Mr. Wyndlow who made the suggestion. It was the board's officials who made the suggestion. Apparently they considered it would be necessary to have the matter investigated by either this committee or by the sub-committee. And I suggest that if that is the procedure which is going to be followed, then it is only fair that we should have present at that time Mr. Wyndlow himself, if you intend really to get to the bottom of the practices of which this brief sets forth a specific example. You will have to have Mr. Wyndlow there.

The importance of this brief as presented today has nothing whatever to do with Mr. Wyndlow's personal fortunes at all. It is a recital of procedures which have been followed in certain instances by the board, and I think it is in the public interest that we should find out whether that recital can be corroborated, and whether some amendment would be in order to alter the board's powers, and in order to obviate the repetition of this case. Unless we can do that, we are in no position to estimate whether the amendment presented to this committee is a worth while amendment or not.

Mr. VIAU: This brief does not deal only with the obligations of the Canadian Farm Loan Board. It deals with the obligations of the banks and others.

Mr. CAMERON (*Nanaimo*): It deals with Mr. Wyndlow's negotiations with the banks which, according to his statement here, were forced upon him by the Farm Loan Board.

Mr. VIAU: Not at all!

Mr. CHARLTON: Let me urge that the committee, having made the decision to hear this brief—I presume there was a decision of the steering committee?

The CHAIRMAN: No. It was referred to the committee when we first opened this morning. It was referred to the full committee. The matter was originally referred to the steering committee on the grounds that it was a representation of an individual person—an individual case—and it was turned down because it is not the usual procedure for government committees to hear individual cases. But a representation was made that the brief was from the Vancouver Island Jersey Milk Association, and on that basis the main committee—this matter not having come before the steering committee—decided to hear it, and we have heard it. You may have your opinion and I have mine. I think this is an individual case and I do not think it has been proven that it is representative.

Mr. Low: May I suggest that the question on the motion be put?

Mr. CHARLTON: Just before putting the question I suggest that the committee, having heard Mr. Wyndlow, must proceed to clear up the difficulties which he brought to this committee because it cannot be left where it is now. I sincerely suggest that the steering committee meet and that Mr. Wyndlow be present? Is there a seconder?

Mr. THATCHER: I will second the motion.

The CHAIRMAN: You have heard the motion.

Mr. ARGUE: I am going to support the motion. I think that if the members of this committee felt that Mr. Wyndlow's case was in fact an individual case, and if there were not many other cases like it, they would probably be willing to let the matter drop at this point. But if I understand what the members have said, many members have said correctly—and the information that has been brought to me is that this is not an isolated case. There are many similar cases, far too many cases. Mr. Charlton says there are hundreds of them which are very similar to this case. I have a file here, quite a comprehensive file, of a case which is not too dissimilar, and I happen to know the man involved. This man has given me full authority to disclose the correspondence. I was a bit reluctant to do it, and I am still reluctant to do it, but this person is known to me as a man of very great integrity and an excellent farmer, and his exact case is not too much different from that presented by Mr. Wyndlow, and I think that his indictment is on a par with those the committee has heard in recent days, and that it should be dealt with and cleared up. And I for one think that Mr. Wyndlow's request that he be given the privilege of attending any meeting where his personal affairs are discussed is a very fair request. What is going to happen on that committee? We all know what is going to happen. The board will make its case out against Mr. Wyndlow and it will make its case just as strongly as it can, because it will bring forward everything it can to damage the evidence put before this committee by Mr. Wyndlow. I think it is only fair that the steering committee should hear both parties.

The CHAIRMAN: I presume that they will endeavour to make their case. On page 3 of his brief, Mr. Wyndlow says: "Because the Farm Loan Board are unable to understand a financial statement; are certainly not interested in being of any assistance whatsoever; place archaic valuations on everything; did not conduct proper valuation of assets; are so completely hide-bound by regulations that various assets and sources of income are treated as being non-existent; are not interested in and do not consider earning power; place no valuation whatsoever upon ability, integrity and capacity—in other words,

character—and ignore completely record of performance; and are clearly completely ignorant of the complexities and requirements of modern farming.”

Those are very strong statements and I think he produces no evidence to back them up.

Mr. FRASER (*Peterborough*): On account of what you said a few minutes ago, Mr. Wyndlow came here under false pretenses.

The CHAIRMAN: I said almost under false pretenses in my opinion.

Mr. FRASER (*Peterborough*): Which insinuated the same thing.

Mr. CAMERON (*Nanaimo*): I did not hear the statement.

Mr. FRASER (*Peterborough*): On account of what you said, I feel it is only the duty of this committee to Mr. Wyndlow to have him present when they meet the board. I back up this motion that Mr. Wyndlow should be present.

Mr. MACDONNELL (*Greenwood*): I think there is one point: I think it is rather unfortunate that this brief was read before this committee this morning.

The CHAIRMAN: So do I!

Mr. MACDONNELL (*Greenwood*): But I think that Mr. Johnson has put his finger right on the point. I hope I am speaking in the general desire for the welfare of this committee and not as a party member. But it seems to me that the committee has got into a rather false position because of what was done on the first day, and because of the notice which unfortunately went out over the air and which misled Mr. Wyndlow. I make this argument purely from the point of view of the committee. It seems to me that if we had him up here before the steering committee this could likely be worked out without too much disagreement, and that the steering committee might be able to come back with a satisfactory report. If we do not have Mr. Wyndlow, it seems to me that we are undoubtedly going to have a hang-over and a disputation. Therefore, because of what Mr. Johnson said, and because of the position we seem to have got into, a rather false position, I suggest that the prudent course now from the point of view of the welfare of this committee is not to get into an unnecessary wrangle, but that we should have both sides.

Mr. FRASER (*St. John's East*): How are you going to release Mr. Chester from revealing confidential material?

The CHAIRMAN: I do not know. You see it is all very well for Mr. Wyndlow to say that he has no objection to having anything released. But much of the information they may have may be in the form of confidential reports which do not come from Mr. Wyndlow but from other people. I see no reason why they should release those whatsoever.

Mr. CHARLTON: Obviously he cannot implicate anybody else but Mr. Wyndlow himself.

The CHAIRMAN: People who get credit reports do not necessarily indicate from whom they receive them.

Mr. MACDONNELL (*Greenwood*): May I ask for a ruling? Is there any obligation on the board when they go before the steering committee to disclose confidential information? I would not think so.

The CHAIRMAN: I do not think there is. They would unquestionably have confidential reports from individuals. If they started to tell from whom they got those reports, they would never get any more confidential information. That is obvious. That is the same thing we all run into, and I think it is very unwise to get into it. I would be strongly opposed to the motion. However, the motion is:

That the sub-committee on agenda and procedure meet with officials of the Canadian Farm Loan Board, with Mr. Wyndlow present, and review the case presented by Mr. Wyndlow.

All those in favour?

Mr. CARRICK: I think that the steering committee made a mistake in permitting this witness to give evidence.

The CHAIRMAN: The steering committee never permitted him to give evidence. It was the whole committee here.

Mr. CARRICK: I think the committee made a mistake in permitting this witness to give evidence today because it is not the function of this committee to go into individual complaints. This committee meeting is for the purpose of considering a bill to amend the Canadian Farm Loan Act and there has not been a word said by this witness in my opinion which is relative to the bill before us, in relation to the Canadian Farm Loan Act, except the answers in reply to questions which Mr. Thatcher asked. That was relevant. He asked what suggestion he would make. The real complaint is that this act has not been administered in the proper way. I do not think it is the function of this committee to go into the administration of this act, on a bill of this kind. The only way you could make his evidence relevant to administration would be if the evidence of a complaint he gives is debatable. But how can you prove that the evidence is debatable without following a host of other individual cases to see whether there are many or few? That would be an impossible position for us to get into. So I submit that this matter should stop right now, and that we re-trace our steps and deal with the matter as we should have done in the first instance. Mr. Wyndlow has been given a chance to make his representations, and I do not think we should do anything further about it.

The CHAIRMAN: It is quite obvious that this is not a brief from an association. If it were so, you would have the facts and figures, but this is not an association brief. It is an individual brief and we should never have got into it. Their telegram read:

The Vancouver Island Jersey Milk Association authorizes their delegate director George Wyndlow to present a brief to the Farm Loan Board enquiry commission.

It is obvious that they did not even know what is going on. They confused us with an enquiry commission.

The CHAIRMAN: On the representations made it was a brief from an association; but it was not and it is not!

Mr. CAMERON (*Nanaimo*): My representation was that Mr. Wyndlow was authorized by a telegram which I showed you and which you read at that time. I think that this business of trying to backtrack when the position becomes uncomfortable is not good enough.

The CHAIRMAN: The question is whether this should be referred to the steering committee who then will hear representations.

Mr. ARGUE: Read the motion please.

The CHAIRMAN: It is moved by Mr. Charlton and seconded by Mr. Thatcher that the sub-committee on agenda and procedure meet with officials of the Canadian Farm Loan Board, with Mr. Wyndlow present, and review the case presented by Mr. Wyndlow. That is the motion. All those in favour of the motion? Ten. Contrary minded if any? Eleven. I declare the motion lost!

Mr. ARGUE: Will you take the vote again, please.

Mr. JOHNSON (*Kindersley*): You cast the deciding vote, did you not, Mr. Chairman?

The CHAIRMAN: Yes! Now, Mr. Chester is available for further questioning.

By Mr. Johnson (Kindersley):

Q. At the conclusion of Mr. Chester's evidence on the last day he was here I asked him to provide the committee with a list of the appraisers from the western provinces, the areas they covered and their qualifications. Is that information available now?—A. I think, Mr. Johnson, your question wanted us to give the qualifications and the names and addresses of our appraisers in the prairie provinces.

Q. That might be the most convenient thing to do, but I was interested in the areas in which they were resident, in order to get an idea of how much work they would have to do, and then to determine whether they could do it expeditiously or not. But it may not be easy to put that on the record—A. I understood that you wanted the qualifications. I thought you might agree with me that it would not be wise to identify these men individually.

Q. I think that it would be wise.—A. I do not think it would be in the public interest or in the interest of the administration of the board.

By Mr. Argue:

Q. Are they part of the secret service?—A. No.

Q. Who are they? Are they political appointees?—A. No, they are not.

Q. Let us hear their names. These are the cover-up men.

Mr. VIAU: They are not C.C.F. 'ers.

Mr. ARGUE: I am glad to have that on the record!

The WITNESS: We have twenty full-time appraisers across Canada employed by the board; ten of them have had from five to ten years' appraising experience; and the other ten have various qualifications including farming; grain buying; real estate and insurance; veterans land act work; Canadian Pacific Land Branch work; implement companies territorial management; credit union work; and their appraisal experience with this board.

By Mr. Argue:

Q. How many of them have been political candidates of any description?—A. None whatsoever.

Q. We are not entirely sure of that because we do not know who they are.

The CHAIRMAN: One minute; just a minute. That is a very unkind statement to make.

Mr. ARGUE: I might have been taking a leaf out of your book, Mr. Chairman; but I withdraw the statement.

Mr. JOHNSON (*Kindersley*): I am rather disappointed that Mr. Chester does not feel free to give us the information, because I have not the slightest idea who the appraisers in my own area of Saskatchewan are.

The CHAIRMAN: I am sure that Mr. Chester would be glad to tell you who they are in your area.

By Mr. Johnson (Kindersley):

Q. I thought Mr. Chester agreed to give us the names, addresses, and the qualifications. I understand that none of the appraisers have any scientific degrees.—A. Out of twenty appraisers eight have their B.S.A.'s.

Q. It would appear that you rely more on farm experience than on any other technical qualifications.—A. No, definitely not.

Q. Is that not true?—A. We consider both. We think both are necessary, and that is the experience that our appraisers have.

Q. You would put agricultural experience as being first, though?—A. You mean operating a farm?

Q. Yes.—A. It is very important if a man comes from a farm background.

Q. I am rather interested. On the basis of Dr. Hope's questioning of the mechanics in giving a loan, and the understanding of farm conditions relative to that subject, I think it would be of no interest to the committee to know what farm experience the senior officials would have in that regard. Take yourself for example; how much farm experience have you had, Mr. Chester?—A. Well I have been listening to the evidence of Dr. Hope to the committee and I got the impression that farming had gone back instead of ahead. My experience was undertaken when I had to get out and milk ten cows morning and night seven days a week for 365 days a year. I had to get behind a walking plough and a pair of horses and plough a maximum of three acres a day.

Mr. CHARLTON: And you could not do it?

The WITNESS: Yes, I did it successfully, but that was during the time when other people were going under the umbrella of F.C.A.A.

By Mr. Johnson (Kindersley):

Q. It is stated in the act that the appraisal value is based on 65 per cent of the actual value of the land. What does "actual value" mean?—A. We decide what the actual value is. I think we said that it was the productive value.

Q. Section 6 (1), line 19 of the bill says "... the principal amount of which shall not exceed 65 per cent of the actual value of such lands ...".

The CHAIRMAN: What is the reference again?

Mr. JOHNSON (*Kindersley*): The actual value.

The CHAIRMAN: I am referring to the act.

Mr. JOHNSON (*Kindersley*): I am referring to page 2 of bill 84, lines 18 and 19.

The WITNESS: I think the answer is that the actual value as far as this board is concerned, and as far as any lending organization is concerned is the appraised value, the actual value of such lands and the buildings thereon as appraised by the Board; but in making its appraisal the Board shall consider the value of the buildings only to the extent to which they add to the value of the land as farm land, ... "in other words it is the productive value.

Q. The Department of National Revenue also makes assessments for succession duty based on the actual value. What would you say that the actual value for the purpose of the Canadian Farm Loan Board would be? Would you say it was identical with the actual value used by the Department of National Revenue for succession duty purposes?—A. I have no idea.

Mr. BENEDICKSON: What they would do would apply to successions.

The WITNESS: If you turn to page 8 of the Canadian Farm Loan Act, you will see that sub-section (d) reads as follows:

The appraised value shall be based on the value of the land for agricultural purposes and as far as possible on the productive value as shown by experience; and no other basis of valuation shall be considered;..."

By Mr. Johnson (Kindersley):

Q. Your actual value is considerably less than the actual value used by the Department of National Revenue in determining the succession duty.—A. I do not say that at all. I said that I did not know what their valuations are.

The CHAIRMAN: He said that he does not know anything about their valuations.

By Mr. Johnson (Kindersley):

Q. I figure that it is important that these valuations be used. Here we have two departments. The government in one case is trying to get as much money as it can, and in the other the department is trying to make the smallest loans that it can.

The CHAIRMAN: That is the conclusion you have reached.

Mr. JOHNSON (*Kindersley*): I was not arguing with you, Mr. Chairman.

The CHAIRMAN: You are not arguing with anybody. You are making a statement. These are not statements made by Mr. Chester.

By Mr. Johnson (Kindersley):

Q. I am going to make some more statements. I have a letter written by Mr. Thomas W. Cator of Shackleton, Saskatchewan, and I think the committee will be interested in some of the background of his experience in connection with appraisal value. This individual has been farming all his life and he had an opportunity to buy a parcel of land. The Canadian Farm Loan Board has the reputation of being rather tardy in purchases of this kind so he went to the bank and consulted it, and the banker placed a valuation of \$35,000 on his farm.

I quote:

His advice was to borrow the money locally to close the deal and then arrange for a long-term loan from the Canadian Farm Loan Board to repay the local lenders. He understood that the board made loans up to 60 per cent of the appraised value of the property with a maximum of \$12,500, and felt I should have no trouble in obtaining the loan on the security I had to offer. I took his advice, completed the deal and last week went to Regina to see about a long-term loan.

The net result was that my application was turned down flat; not only that but a highly placed official there did not even have the courtesy to look over my completed application form. What he did do was look at a map to see where I was located and informed me that it was a poor part of the province and that they did not make loans of this size down there.

Now, Mr. Chairman, I think we have got to grapple with this problem of actual value and appraised value if we are going to avoid the repetition of situations such as this, and the letter from which I have quoted coincides very closely, in its submission, with the evidence which Mr. Wyndlow gave us. I was wondering, Mr. Chester, if there are many instances in which applicants are refused loans without an appraisal having been made of their farming situation.—A. I think the committee will understand that after operating as we have operated for 25 years we have accumulated a considerable amount of knowledge of local conditions and local values. We see an application for a loan of a certain amount, and we know what the security is. From our own experience it may be that we say—and we think we are right in saying—that the amount of the loan asked for is in excess of what we might loan in that particular area. We might discourage an applicant from making his application if it were greatly in excess of what we think we could loan. On the other hand any applicant for a loan who insists upon an appraisal will receive an appraisal irrespective of our preliminary opinion.

Q. How do they go about that when their applications for loans are automatically turned down, as in this case?—A. The applicant has only to say. I want an appraisal. If he says that, he gets it.

Q. You have mentioned that you have considerable knowledge of the values of land in various areas. In the light of the evidence given by Dr. Hope are you prepared to instruct your field staff to give more consideration to the land assessment in Saskatchewan than was, evidently, done by your staff in Regina in this case when the application was turned down?—A. There are many factors to be taken into account when considering making a loan, one of which is the assessed value. One province in Canada—I think it will be fair to say this—has a better method of value assessment than most of the others, and that province happens to be Saskatchewan. We also have soil maps and an economic survey; we also have the long-term crop averages for 40 years or more. We know the rainfall and we know the hail record; there are many factors which enter into the making of a loan, not the least of which is the personal factor. Each has to be investigated; and if we accept, as is suggested now, the assessed value in Saskatchewan as a basis it should be realized by the committee that the municipal assessments in Saskatchewan do not include buildings. We make loans on buildings. How, then, can we accept that valuation as the basis for an appraised value, since we would not be getting the whole picture; and until we have the whole picture before us I do not think we would be acting as responsible people if we made the loan?

Q. That proves my point. The officials had no authority to turn down this application because they had never been out to see his buildings. Is that not true?—A. I think you will find that this individual was discouraged by our office because, from the information they had, they felt the loan requested was larger than could be considered, having regard to his security. Without the file before me I do not know for certain what the reason is, and I do not think I can discuss any case intelligently without knowing the facts about that case. This, again, is an individual case and I am just telling you this: that we do discourage people from applying for excessive loans having regard to what we anticipate the value of the security might be; but even in a situation of this sort we will not refuse an appraisal of the security offered, if this is insisted upon.

By Mr. Low:

Q. Mr. Chairman, I have a question which relates closely to the question which was asked by Mr. Johnson. Are the appraisers supplied by the board with a detailed, printed appraisal guide?—A. They have a book which we publish—an appraiser's book.

Q. Would you make a copy of that available to the committee?—A. I think we could if it is desired that we should do so.

Q. I think it would be useful to the committee, if we could have that here.—A. I doubt whether you would find it very useful. It contains instructions to the appraiser, telling him what he should do when he appraises farms.

An Hon. MEMBER: I would like a copy, too.

By Mr. Cameron (Nanaimo):

Q. Do I understand that one of the factors which you take into consideration is the personal character of the applicant? In the case of a man applying to Regina or New Westminster, how would you go about doing this?—A. There are many ways of getting personal information, as you know, not the least of which is a credit report which we get in borderline cases. Enquiries are also made privately from responsible people.

Q. Would not one of the sources which you would approach, particularly with regard to a man's credit rating, be the local bank manager?—A. Quite often.

Q. That is what I was wondering about while I was listening to Mr. Johnson read his letter from the man who got the advice of his bank manager before making his application.—A. Bank lending is considerably different from mortgage lending.

Q. You have just told us that you asked bank managers for their opinions. If those opinions are not worth anything, why do you ask for them?—A. I am speaking of a personal opinion, not an opinion on the value of the security offered.

Q. The opinion you seek would be one based on the character of the applicant?—A. We want to know what the bank's experience is in regard to the repaying of debt by this individual.

By Mr. Argue:

Q. With regard to the loans made in the Regina area, for example, can you give me a general indication of the maximum amount you have been prepared to lend in the last two or three years against a quarter section of Regina heavy clay land?—A. Again, it is almost impossible to answer that question.

Q. What is the maximum amount you have ever loaned against any quarter section in Regina?—A. I would have to look that up. It does not seem to me that the answer could be relevant, though, because one section could be built up tremendously and be a successful going concern, in comparison with the majority of others; and the fact that we make a large loan or a small loan does not altogether depend on the value of the property. As I said, there are personal factors which enter into this. Sometimes a loan is refused because we do not feel an applicant has either the ability or the intention of repaying.

Q. I think this question is important, and I think it is one which Mr. Chester from his own knowledge of the business of the Canadian Farm Loan Board should be able to answer. I know that general area—the Regina heavy clay land to which Dr. Hope has already referred in the course of our discussions, and it is on the basis of that particular area of land that the whole of the Saskatchewan assessment is founded. That land is considered, by the people who make the assessment, to be the most productive from an economic standpoint of any land in Saskatchewan. Is the board actually following the so-called conservative policy, and are the appraisals of the board too low? In order to help answer this question I want to get some indication of the maximum amount of money that may be lent by the board against such land. Do you lend as much as \$5,000 on a quarter section of that land? What is the general appraised value on that amount of property which is, as Dr. Hope has said, almost completely uniform?—A. You asked me if we have lent as high as \$5,000 against a quarter section of land, which works out at approximately \$30 an acre for the buildings and land. I am talking about the value of the property. I would not care to answer the question without getting the information before me. When I make a statement here I want it to be correct. I could say something which I might think, and then find it was wrong. If you will wait for the information I will find out the amount of the largest loan we have made in the Regina heavy clay area.

Q. Of course, I presume that any statements which you make are completely accurate, as far as you are aware. I am not particularly concerned about the maximum figure, though I would like that information. What I want to know is your general rule-of-thumb-maximum, leaving aside the question of buildings altogether. Do you lend \$2,000, \$3,000, \$4,000 or whatever it is against a typical quarter section of Regina heavy clay?—A. I think, probably, that if we give you the information with regard to the maximum loan we have made in Regina clay it would answer your question.

Q. No, it would not because, as you have pointed out, there might be on one piece of land a magnificent set of buildings worth between \$20,000 and \$30,000, and the land might be one mile out of the city of Regina; there might be many factors which could establish the loan on one given quarter section at a fairly high figure. What I want is a typical maximum—something that is the general practice.—A. That is an almost impossible thing to get without going into the details of every transaction.

Q. Tell me how many loans on Regina heavy clay land you have made that are over \$5,000, over \$4,000 and over \$3,000 recorded during 1955?—A. We will get that information for you. Let me, however, first get this clear: are you referring just to quarter section units or to a quarter section that might be combined with another quarter section to make a half section unit?

Q. I am not interested in quarter sections as entities; if a man has two quarter sections and you lend him \$6,000 then I take it there will be a loan of \$3,000 on each quarter section.—A. So many things crop up. If a man applies to us for a loan of \$2,000 on a quarter section in the Regina plains, he will likely get it. That does not say we would not make a larger loan.

Q. What I want to know is whether you are being too conservative or not.—A. If a man applies for a large amount and the board turns him down—is that it?

The CHAIRMAN: I think I can define what you are after, but I think you will have to differentiate, Mr. Ague, between one loan and another. A man may be content to apply for a \$2,000 loan when he may have been able to get a \$4,000 loan. That does not indicate that the board is conservative. I think you are interested in cases where people have applied for larger amounts than they have got.

By Mr. Argue:

Q. I am quite prepared to accept that. Can you tell me, Mr. Chester, what is the highest appraised value you place on a acre or on a quarter section of Regina heavy clay land, related only to productive purposes, apart altogether from buildings and location?—A. I will get that information at the same time.

By Mr. Macdonnell (Greenwood):

Q. Mr. Chester, how long have you been chairman of the board?—A. A little over two years, sir.

Q. My understanding is that during that period, and perhaps for some period before that, you have been able to set up a reserve and also to show an operating margin.—A. Yes.

Q. When you took on this job were you given any instructions as to just what your objective was? Let me make my meaning clear. In ordinary private business, the objective is to make it just as large as you can, by every means you can. Did you regard yourself as in that position of trying to increase this business in every way? Further, did you regard it as a public service which you should operate at cost?—A. Your first question was whether I regarded this as a business which should be increased greatly. I cannot honestly say I went in with any opinion as to whether it should or whether it should not, until after I had been there and had seen how it should operate. The other question you asked was—

Q. As to your reserves and profit margin.

The CHAIRMAN: You asked him whether he believed he was to operate at cost or otherwise.

The WITNESS: I think anybody who has been in business at all will agree with me when I say that no business is operated at cost. Either you make a profit or you do not; it is only by luck that you "break even" unless there

is a predetermined policy to give money back in case of a surplus. I do not think any business could be operated on the basis of operating at cost. I will say this, that the past practice of the board has been not so much to operate at a profit but to build up such reserves as, in the opinion of the officials, were necessary.

With regard to this question of profit, and there has been much discussion about it, I would like to point out to the committee that any profits that this board has made in the 25 years of its history have all gone back to the board for the use of the board and for the benefit of the farmers. There has never been any dividend paid to the government on capital amounting to about \$2½ million. If we did not have the reserves which we possess now, and if we did not have the capital which the government has supplied, funds which *in toto* amount to about \$5½ million, the revenue of this board would be \$275,000 less than it is; and we would have shown a very substantial loss. So when you talk about profit making it should be realized that the profits of the board in the past have been a surplus over operating costs and have gone back to the board for its use and the benefit of the farmers making use of its services.

By Mr. Macdonnell (Greenwood):

Q. I am not going to pursue, at the moment, this figure of \$275,000—A. I can explain that—it is \$5½ million lent out at 5 per cent.

Q. What do your reserves stand at now?—A. A little over \$3 million in all. We have two reserves; I could give you the exact figure if you wish.

Q. What I am trying to clear up is this: I think that probably every member of this committee feels that this organization was initiated to be of assistance to the farming industry and, speaking for myself, I cannot help feel that it has probably erred on the side of caution. I am not expressing that as a firm opinion because I want to hear more from you.

I turn now to another aspect of the same question. What is the gross business done? Can you give me the gross loans, covering, roughly, a period of four or five years so that I can get an idea of the course of the business. Has it been expanding rapidly?—A. Yes. In the last two years—and I am speaking now of the period up to the end of March, 1955—we did about \$8½ million worth of business. In the previous year we did about \$8 million worth, but prior to that we were down to \$5 million and \$3 million. I should, really, give you the exact figures, but those are correct according to my recollection. I may say that the years 1954 and 1955—the last two years—are the largest consecutive two years in the history of the board.

Q. What do you do to make your services known? We have heard about people who are, perhaps, a little too enthusiastic in advertising, and I would like to know whether you are perhaps less enthusiastic than you might be. What have you done?—A. We are advertising in a substantial number of farm journals and I think our advertising this year will cost us somewhere in the neighbourhood of \$3,500.

Q. That does not sound very much, does it?—A. It is sufficient, if you consider that we advertise for five months of the year in, I believe, 10 or 12 farm journals which have coverage across Canada. I think we cover the farmers very completely. The committee should remember that we have a lending season of only about seven months of a year, and that for five months out of seven we advertise.

Q. Other members of the committee know more about this subject than I do, and they can comment on it. I want to turn now to the question of service. There has been a good deal of questioning as to the length of time taken, and I realize that winter and snow introduce a special difficulty into

reporting on land. How many appraisers have you? Did you say 20?—A. Twenty full time appraisers and 36 part time.

Q. That is for the whole of Canada?—A. And two seasonal appraisers. That makes 58.

Q. Again that seems to be a small number. Can you answer this question: can you give me an idea of the length of time it takes to answer an application? We heard of one this morning which, apparently, was answered very promptly; but I do not suppose they are all answered as promptly as that. Can you give me some idea what happens? Suppose I am a farmer in Saskatchewan and I make an application. Do I make that application in Regina?—A. Yes.

Q. Is there only one office in Saskatchewan?—A. There is one in each province.

Q. But nowhere else in Saskatchewan?—A. No.

Q. A man from the north has got to come down to Regina. What happens when an application is made? Does a valuer go out?

An Hon. MEMBER: They turn it down.

The WITNESS: Our applications are designed in such a way that they can be attended to by correspondence. There is no need for any borrower, at the application stage, to visit any branch office. When we receive an application for a loan we examine it carefully, of course—

By Mr. Macdonnell (Greenwood):

Q. That would be examined at Regina?—A. Wherever the branch office happens to be within the province. If it is felt that there is a chance of a loan an appraisal order is immediately issued, provided we have sufficient information. The appraiser goes out, makes his appraisal and reports back to the branch office who take all the circumstances into consideration. They report it and they make the loan recommendation.

Q. How many appraisers are there?—A. There is only one appraiser to a farm, if that is what you mean.

Q. How many applications, roughly, would you get in Regina in the course of a year?—A. Roughly 1,300 or 1,400. Maybe more than that. I think we had better get the exact figure.

Q. I will wait for the figure, but in the meantime would you tell me how many appraisers you have?—A. We have 20. I can say now that there were 1,400 applications in Saskatchewan last year.

Q. And did you say how many appraisers you have?—A. Are you speaking of Saskatchewan or of Canada as a whole?

Q. Of Saskatchewan.—A. We have five permanent appraisers and 14 or 15 part time.

Q. That would make about 20 in all. How long would it take for your appraiser to make an appraisal?—A. A good appraiser should complete his appraisal in a day.

Q. Let us give him two or three days.—A. No, we expect him to complete his work and send in his report in a day.

Q. What I had in mind was that it would not always be possible for him to get out.—A. There are many factors which might keep him away for several days.

Q. How long would you reckon would elapse between receipt of the recommendation and the answer granting or turning down the loan?—A. I think it has been stated that it took us six months. But the figures show that 50 per cent of all our loans across Canada are completed within 50 days.

Q. Is the final decision made in Regina or in Ottawa?—A. The final decision is made here in Ottawa.

Q. You say the average is 50 days?—A. No, I said that 50 per cent of all our loans in Canada were completed within 50 days last year. If you go over the 50 day period you will find individual reasons why extra time was taken—complete information had not been given, further information was needed, or correspondence was required which caused the delay.

Mr. BENIDICKSON: The average figure you have given would include applications made, let us say, in December where you could not go out until May. I take it some might go through in considerably less than five months?

The WITNESS: Oh yes. Our appraisal season is open already this year, and in Ontario—this is our 1956 business—we have made 29 loans so far, and the average time from the date of the receipt of applications until the loans were completed was 28 days.

By Mr. Macdonnell (Greenwood):

Q. Going back to this period of 50 days, I am not arguing about this question of snow on the ground, but if that factor could be left out and if it was a question of the amount of time really necessary, you have indicated that in Saskatchewan it would only be three or four days.—A. I do not think any lending organization could ever—

Q. I think you said that from the time an application was received in Regina you would send out an appraiser and he would take one day—I was giving you two days.—A. No, he would take a day to appraise. It might take him two or three days to get there, owing to weather conditions.

Q. I was giving you some time, but apparently you would not take it.—A. I think we were talking about two different things.

Q. Let us call it 10 days. Then, we jump from 10 apparently to 50. I want to be fair over this, but I am wondering whether there is a terrific delay. We are told by reasonable men that there is. First of all, I want to know if there is this delay, and in that case does it mean that the board has not got sufficient staff? I am putting this clearly to you, that there is a gap between 10 days and 50 days.—A. I think everyone will understand that we have an administrative problem at all time. We have a short season of seven months, and our work does accumulate; and no matter how many men we have, we probably would not be able to complete it as quickly as some people would like.

Q. If I have stated the position accurately there are 40 days here, or 35, to be explained away and that could mean an awful lot.

Mr. ROBICHAUD: There is the search of title.

An Hon. MEMBER: It would take an hour.

The WITNESS: After the appraisal is made, the appraiser submits his report. There is some checking on the part of our branch office as to the accuracy of certain information in that report.

A man may say, for instance, with regard to his debts, that he owes a couple of hundred dollars for machinery and a few hundred dollars for something else—just offhand answers. It may be that the purpose of the loan is to pay off these particular debts, but we must ascertain precisely how much it is that the man really owes—we must have the exact amount; which means write to the bank and confirm the figure. This may take only a few days, but I do not think it is possible to deal with very many loans without running into some correspondence between the time a farm has been appraised and the time the loan has been approved. We watch this position very carefully. We get a record at head office, and if we see that loans are slowing down we write inquiring the reason for the delay. I can truthfully say that I do not think any organization built up in a similar manner to ourselves would process loans much faster than we are doing. We are

improving all the time. This is something which we have before us as an administrative problem, and I am not going to stand here and say we cannot make improvements. If we could not we should not be in business. I am looking for improvements all the time, and I have got improvements, and I can assure the committee that in the last couple of years we have met with some success. We have had disappointments, too, but this is really an administrative problem—

By Mr. Macdonnell (Greenwood):

Q. I am going to ask just one further question, and then come back to this subject, perhaps, later on. Do not answer it now. If somebody told you he would give you a million dollars if you could increase the business of farm loans maybe two, three, four, five or six times, what would you say? Please think that over and answer it later. Well, perhaps I can put the question to you in a more sensible way.—A. It would depend, of course, on who said that.

Q. I am not offering it myself.—A. I think I should probably investigate it myself—I think I know the answer, but I should not give it in front of this committee.

Q. It is perfectly clear to me that the accounts of this board have been operated in such a way as to show a substantial margin so that everyone would feel satisfied that no losses would be made. I am not confident that this is the way in which it should have been done. So I will ask you this: if you were told that you would receive a million dollars if you could achieve the maximum amount of business, even by taking some very real risks, what would you say? Do not answer that now, but think it over and give me the answer again.

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Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

Bill 84

An Act to amend the Canadian Farm Loan Act

TUESDAY APRIL 24, 1956

WITNESS:

Mr. F. L. Chester, Commissioner, Canadian Farm Loan Board.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE ON BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

| | | |
|-----------------------------------|---------------------------------|---------------------------------|
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| Ashbourne | Gour (<i>Russell</i>) | Philpott |
| Benidickson | Hanna | Power (<i>Quebec South</i>) |
| Blackmore | Henderson | Quelch |
| Bryson | Hollingworth | Richardson |
| Cameron (<i>Nanaimo</i>) | Huffman | Robichaud |
| Carrick | Johnson (<i>Kindersley</i>) | Rouleau |
| Charlton | Low | St. Laurent (<i>Temis-</i> |
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| Fairey | Matheson | Viau |
| Fleming | Michener | Vincent |
| Follwell | Mitchell (<i>London</i>) | Weaver |
| Fraser (<i>Peterborough</i>) | Monteith | White (<i>Waterloo South</i>) |
| Fraser (<i>St. John's East</i>) | Nickle | |

Eric H. Jones,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, April 24, 1956.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Argue, Ashbourne, Benidickson, Blackmore, Bryson, Cameron (*Nanaimo*), Carrick, Charlton, Deslieres, Enfield, Fairey, Fleming, Follwell, Fraser (*Peterborough*), Hanna, Henderson, Hollingworth, Hunter, Johnson (*Kindersley*), Macdonnell (*Greenwood*), Michener, Mitchell (*London*), Monteith, Pallett, Philpott, Power (*Quebec South*), Quelch, Richardson, St. Laurent (*Temiscouata*), Valois, Viau, Weaver and White (*Waterloo South*).

In attendance,

In re Bill 209: Mr. Beverley Matthews, Q.C., Registered Parliamentary Agent.

In re Bill 84: Messrs. F. L. Chester, Commissioner; E. O. Bertrand, Member; W. A. Reeve, Secretary; and R. McIntosh, Chief Accountant; all of the Canadian Farm Loan Board.

(*Note: The Committee first dealt with a Private Bill, in respect of which verbatim evidence was not recorded.*)

The Committee continued its consideration of Bill 84, An Act to amend the Canadian Farm Loan Act.

Mr. Chester answered questions which had been asked him at previous sittings. He was further questioned on matters contained in the briefs which had earlier been presented, and on the operations of the Canadian Farm Loan Board, in the light of the said briefs. Other officials of the Board answered questions specifically referred to them.

At 1.00 o'clock p.m., the Committee adjourned until 3.30 o'clock p.m. this day.

AFTERNOON SITTING

At 3.30 o'clock p.m., the Committee resumed its consideration of Bill 84, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Ashbourne, Benidickson, Bryson, Cameron (*Nanaimo*), Carrick, Charlton, Crestohl, Fairey, Fleming, Follwell, Fraser (*Peterborough*), Hanna, Hollingworth, Hunter, Johnson (*Kindersley*), Lusby, Macdonnell (*Greenwood*), Macnaughton, Michener, Monteith, Pallett, Philpott, Power (*Quebec South*), Quelch, Richardson, St. Laurent (*Temiscouata*), Valois, Viau, Weaver and White (*Waterloo South*).

In attendance: The same as at the morning sitting except Mr. Matthews.

The questioning of Mr. Chester was continued; he was thanked and retired.

At 5.25 o'clock p.m., the Committee adjourned until 11.00 o'clock a.m. on Thursday, April 26, 1956.

ERIC H. JONES,
Clerk of the Committee.

EVIDENCE

TUESDAY, April 24, 1956.

11.00 a.m.

The CHAIRMAN: Gentlemen, we will now continue on with the bill to amend the Canadian Farm Loans Act. Mr. Chester is here as the witness. Will those who wish to ask Mr. Chester questions please indicate to me and they will be put in the proper order?

Mr. F. L. Chester, Commissioner, Canadian Farm Loan Board, called.

The CHAIRMAN: Have you any preliminary remarks, Mr. Chester?

The WITNESS: I have some answers to questions previously asked.

The CHAIRMAN: Mr. Chester has some answers to questions asked at a previous meeting. We will have those first.

The WITNESS: You will recall that a question was asked by Mr. Gour at the last meeting. I do not believe he is here.

The CHAIRMAN: He can read it in the evidence.

The WITNESS: His question was as to the amount of losses that were written off by this board from its inception by provinces. The answer is: British Columbia, \$92,014; Alberta, \$232,237.76; Saskatchewan, \$301.64; Manitoba, \$12,501.99; Ontario, \$3,908.60; Quebec, \$251,516.95; New Brunswick, \$78,580.96; Nova Scotia, \$42,274.12; Prince Edward Island, \$3,582.41; combined total \$716,918.43.

By Mr. Fairey:

Q. For what period of time is that?—A. Since the inception of the board.

By Mr. Quelch:

Q. Could you give us the figures again for Alberta and Saskatchewan? —A. Alberta, \$232,237.76; Saskatchewan, \$301.64.

By the Chairman:

Q. \$301 or \$301,000?—A. \$301. Now, Mr. Tucker asked a question—he is not here.

The CHAIRMAN: That is all right.

The WITNESS: He wished to know, by provinces, the number and the amount of the average loans approved, the appraised value average, and the number of loans approved over \$9,500. This is for the period April 1, 1954, to March 31, 1955; that is, the fiscal year: British Columbia, loans approved 100; amount \$443,850; average loan \$4,439; the average appraised value per unit \$10,682; the number of loans over \$9,500, 11. Alberta, loans approved 307; amount \$998,850; average loan \$3,254; appraised value average \$8,143; loans over \$9,500, 1. Saskatchewan, loans approved 726; amount \$2,904,000; average loan \$4,000; appraised value average \$9,106, loans over \$9,500, 29. Manitoba, loans approved 200; amount \$808,800; average loan \$4,044; appraised value average \$10,731; loans over \$9,500, 11. Ontario, loans approved 428; amount \$1,839,600; average loan, \$4,298; appraised value aver-

age \$9,374; loans over \$9,500, 15. Quebec, loans approved 177; amount \$617,550; average loan \$3,489; appraised value average \$6,976; loans over \$9,500, 5. New Brunswick, loans approved 62; amount \$186,650, average loan \$3,010; appraised value average \$6,797; loans over \$9,500, 1. Nova Scotia, loans approved 29; amount \$88,750; average loan \$3,060; appraised value average \$6,400; loans over \$9,500, nil. Prince Edward Island, loans approved 116; amount \$337,450; average loan \$2,909; appraised value average \$6,106; loans over \$9,500, nil. All provinces, total loans approved 2,145; total amount \$8,225,500; average loan \$3,825; appraised value average \$8,805; number of loans over \$9,500, 73—these 73 loans are 3.36 per cent of the total loans approved.

By Mr. Cameron (Nanaimo):

Q. Over what period is that?—A. For the fiscal year 1954-55. It is from April 1, 1954 to March 31, 1955.

Now, at the last meeting there was a question asked by Mr. Argue. The question was—How many loans were made on Regina heavy clay over \$5,000, over \$4,000, and over \$3,000, during 1955?

By Mr. Argue:

Q. Per quarter section.—A. Yes, although that is not the wording of the question.

Q. Yes, it is.—A. Prior to that we were discussing quarter sections, I think, and it is inferred, that the question had to do with quarter sections.

The answer, Mr. Chairman, is that we have made no loans on Regina heavy clay for quarter section units. During 1955, a total of 11 loans were made to applicants in the Regina heavy clay area. All of these loans were in excess of \$5,000. The details are as follows: 5 of these loans applied for were for maximum amounts of \$12,000; all of these 5 applications were approved in the amount applied for, \$10,000 by way of first mortgage and \$2,000 by way of second mortgage, or a total loan of \$12,000. Three of the loans applied for were for the maximum amount of \$10,000 on first mortgage, all of these applications were approved in the amount applied for, namely \$10,000. The three remaining loan applications were: the amount applied for \$8,400, the amount of loan granted \$8,400; amount applied for \$7,500, amount of loan granted \$7,500; amount applied for \$6,000, amount of loan granted \$6,000.

Q. Have you the amount of land involved in each case; the quantity of land?—A. I think I might have that here, Mr. Argue. Yes, I have. This does not conform in sequence to the answer I gave. I will give these in rotation here as they appear on this sheet. This one is a \$10,000 loan; 543 acres. Is that the information you wish?

Q. Yes.—A. A \$12,000 loan; 800 acres. An \$8,400 loan, 585 acres. A \$12,000 loan; 640 acres. A \$12,000 loan; 640 acres. A \$10,000 loan; 784 acres. A \$12,000 loan; 640 acres. A \$6,000 loan; 480 acres. A \$7,500 loan; 480 acres. A \$10,000 loan; 638 acres. A \$12,000 loan; 633 acres. Does that answer the question the way you wished it?

Q. I think the answer could be derived from this information. I have not had time to look at it. Is this correct, that the largest loan per quarter section, from the figures that you have given me, is \$3,000?—A. No. We made no loans on a quarter section unit.

Q. The average?—A. We cannot break it down.

The CHAIRMAN: I think that the conclusion which you might draw would be your own, rather than necessarily the correct conclusion.

By Mr. Argue:

Q. The question was very simple. It is, the average amount per quarter section. I see some \$12,000 loans here, and the smallest amount of land on which a \$12,000 loan is made is 633 acres, which is approximately four quarter sections. It would appear from these figures that the largest loan made per quarter section would be \$3,000 on Regina heavy clay land, and that land has been selling in the last 5 years on the average at about \$10,000 a quarter.—A. How much?

Q. About \$10,000 a quarter; and that is a cautious estimate. I think that estimate is too low.

The CHAIRMAN: A conclusion which might be inferred from that is not necessarily right because they would get the loans they applied for.

By Mr. Argue:

Q. But the loan which they apply for is often a result of discussions which had taken place before the official application was made. I take it these are official applications and that there may have been many inquiries made before the applications were submitted.

The CHAIRMAN: Yes, there may have been.

Mr. ARGUE: I am sure there had been; it is almost certain.

The CHAIRMAN: It does not necessarily follow that they would have applied for more.

By Mr. Argue:

Q. Then, I wonder if I might ask this question, which I believe I have asked a number of times. Let us take these figures. What is the highest value that any of these section farms was appraised at? Perhaps I should put it another way: is there one of these loans that is the maximum, related to the percentage of the appraised value?—A. There are 8 of these loans that are maximum according to our maximum loan limits. We could not possibly exceed that amount of loan to begin with.

Q. Would you name off those 8?—A. They were the 5 \$12,000 loans and the 3 \$10,000 loans. No matter how much they ask for we could not loan any more money.

Q. Under the limits of the act?—A. Yes.

Q. You misunderstood my question. I am asking about this appraised value. I take it your appraised value is not related to the amount in the application for a loan. Your appraised value is something related to the land?—A. Yes.

Q. I am asking you what is the highest appraised value that was given in any of these cases which you related to this number?—A. There is one farm here which we appraised at \$35,000.

Q. How much land was there?—A. 784 acres.

Q. Have you one or two other examples there?—A. The next highest is an appraised value of \$27,256 with 633 acres.

Th CHAIRMAN: Are you through, Mr. Argue?

Mr. ARGUE: Yes.

By Mr. Johnson (Kindersley):

Q. Mr. Chester, when Dr. Hope was giving his evidence, he intimated that a certain percentage of your loans were made for the purpose of consolidating the farm improvement loans which have been made to farmers and which have been in arrears. I think this is a disturbing tendency and does not relate to the operation of your department but rather to the Farm Improvement Loans

Act. Could you give us information as to what proportion of your loans are for the purpose of consolidating the farm improvement loans which are in arrears?—A. No. Mr. Chairman, we do not have detailed information about retiring those. We have an over-all picture of the amount of debts we retire by our loans. Would that be of any assistance to you?

Q. Yes. It would help. Thank you.—A. Purposes of loans, amongst others for the year 1954-55: 25·61 per cent of the amount of loans of the board were for the purpose of paying other debts; other debts are other than taxes or land debt or land purchase. In that figure, of course, are included moneys for the payment of F.I.L. loans.

Q. Thank you. It is apparent that about $\frac{1}{4}$ of all loans is for the retirement of debt in that particular year?—A. Yes. Incidentally, that has shown a tendency to increase in the last 2 or 3 years.

Q. This figure for the retirement of debt has increased?—A. Yes.

Q. One of the points which Mr. Macdonnell was bringing up at the last meeting was the time lag from the application of the loan until the loan is eventually made, and at that time, I believe, you stated all the loans were channelled through the Ottawa office. Is that correct?—A. Only in so far as approval is concerned.

Q. The final approval?—A. Yes.

Q. Could these loans not be processed in the regional offices, and would that not speed up the whole means of making loans? What I am thinking of is the situation in Saskatchewan where we have a classification of lands which can be utilized, and it would appear to me that by allowing them to make the final appraisal or authorization in the Regina office, that the prime lag would be reduced somewhat. Is there any reason why that could not be done as an administrative technique?—A. It has always been the policy of the board to require final approval of all loans by the commissioner at head office. As far as the delay is concerned, all our mail is airborne now. I would guess that there is not more than a couple or three days actual delay in the mail. There is no delay at head office whatsoever.

Q. The point I have in mind there is that in the head office you are quite removed from the local office, and it would appear to me that the supervisor of the Regina office would have a better appraisal of the unique conditions which might prevail there and would be in a better position to make an assessment than you would be at the head office just because of your geographical location.—A. We have our act to interpret. That must be interpreted at head office. Quite often it is necessary for us, because of the act, to question the eligibility of a borrower. I do not think that responsibility should be placed upon the branch office. We think that the policy has to be similar in all areas in Canada. The only purpose which I can see in a change would be to save time, and the time that would be saved, as I said before, in regard to total time consumed, is very, very minor indeed. We, of course, wish to speed up applications as much as we possibly can and I think there are other places where we can save much more time in the actual processing of these loans than in the one you asked about.

By Mr. Fairey:

Q. Might I ask if it occurs frequently or infrequently that final approval is withheld at the head office?—A. Very infrequently!

By Mr. Argue:

Q. Do you have a recommendation on the application when you receive it from your people, let us say, in Saskatchewan or wherever it may be?—A. Oh

yes. The loan is practically finalised at the branch office. All it needs is the signature and a glance over the terms of the loan in regard to the act, just to be sure that we are operating within the act.

Q. What percentage would you say is turned down?—A. You mean at the head office?

Q. Yes; is it a large part?—A. I have not got the figures but my recollection would be that it would not be one per cent.

Q. You say it would not be one per cent?—A. I would not think so.

Q. What would be a typical cause?—A. Ineligibility.

Q. Ineligibility for what reasons?—A. Because he is not a farmer; because his principal occupation is not farming, mainly. There are other reasons. However that is the main one.

By Mr. Johnson (Kindersley):

Q. There is one point which seems to be disturbing some members of the committee. It is the whole problem of assessment. As pointed out in connection, in Mr. Macdonnell's question, there was a considerable time lag because of the non-availability of assessors. Since there are only twenty full time assessors in Canada, that brings up the whole problem of whether you have an adequate staff of assessors to do the job as expeditiously as you might; therefore I thought it would be in the interests of this committee if that information were brought forth because of the short appraisal season that we have, and that this may be the cause for delay.

The CHAIRMAN: Mr. Johnson, would it not be better if you are going into that matter to ask about a particular area, because if you are going to take it at large across Canada, I do not think we can get down to the meat of the problem. But if you were to ask about, let us say, your own area—why not go into that to see if there is some delay?

Mr. JOHNSON (*Kindersley*): I would be very pleased if Mr. Chester would give us the names as outlined at our initial meeting of the full and part-time appraisers and assessors for the board, because I think it would be information which all the members should know, so that they might know where their particular appraiser is located, and they would be in a position, since they are familiar with the territory, to judge the amount of work he would have to do, and I think they should know something about the qualifications of the particular assessor. Therefore, I would appreciate it if you would provide us with the names and addresses of the full and part-time assessors whom you have operating under the act, and put them on the record.

Mr. HOLLINGWORTH: I thought we had them here.

Mr. JOHNSON (*Kindersley*): No, I mean just to table them.

The WITNESS: I have not got them with me.

Mr. JOHNSON (*Kindersley*): You will be able to table them, will you not?

The WITNESS: I would prefer not to, but I am in the hands of the committee.

The CHAIRMAN: I do not think it has ever been the usual practice for a crown corporation to give out the names of its employees or their qualifications and so on.

Mr. JOHNSON (*Kindersley*): Mr. Chairman, my question was for the names of specific employees whose work has been quite severely criticized in this committee. I do not see how it would make any difference whether the information was supplied to us here or in the house. It would have to come from the same source eventually.

Mr. BENIDICKSON: Mr. Chairman, I think the same rule is applied to questions when they are asked in the house as when they are asked in committee as to the names and salaries of employees; for example, in the case of the Canadian National Railways or something of that kind.

The CHAIRMAN: Might I suggest that if anybody here knows of a particular area and wishes to know who the appraisers are, that he indicate the fact. I do not see any reason to supply holus-bolus information about crown corporations and their employees, unless people are interested in some of them. I cannot quite follow your interest, let us say, in appraisers in Prince Edward Island, Mr. Johnson; but I can follow your interest in appraisers in your own province or area.

Mr. JOHNSON (*Kindersley*): I asked at the last meeting if there was any reason for reluctance in providing this information. It is quite simple information to me. Our responsibility is to probe into the operations of this public body, and it was with that object in mind that I asked my questions, to try to make constructive criticism on the basis of the information that would be provided.

Mr. FRASER (*Peterborough*): You mentioned that information regarding crown companies is not to be given.

The CHAIRMAN: I did not say that; I said it was not the usual practice.

Mr. FRASER (*Peterborough*): But in the House of Commons I have put questions on the order paper in regard to crown companies and I have received answers regarding employees in those companies, and they have not hesitated at all to give me these particulars.

Mr. MACDONNELL (*Greenwood*): I understood that the names had been asked for. I was not aware that the salaries had been asked for, and I would not ask for the salaries. I am unable to see why there should be any question about giving us the names; and if there is objection, I should like to understand what it is, because at the moment I can see no reason why the names should not be given.

The WITNESS: I think you will recall that the question was originally asked in regard to the qualifications of these appraisers. That was the point I objected to; that we should identify these appraisers under certain qualifications. However, if it is required for the committee I am sure we would not object to giving you the names, but I do not think that the addresses would mean very much, except that we can tell you within the area; would that be satisfactory?

Mr. JOHNSON (*Kindersley*): Yes.

The WITNESS: You do not want the street addresses?

Mr. JOHNSON (*Kindersley*): No, no.

The WITNESS: I do not see any objection to that type of information, but I certainly would not want to have the names tied in with certain qualifications. That is the point I tried to establish, perhaps not too clearly, when the question was asked in the first place. I have not that information with me, but if the committee wishes I shall get it.

Mr. JOHNSON (*Kindersley*): That will be fine. Thank you. That is all.

The CHAIRMAN: Mr. Macdonnell.

By Mr. Macdonnell (*Greenwood*):

Q. I would like to ask some questions, following the questions I asked the other day, and based on page 7 of the report of the Federation of Agriculture. My first question is: what are the legal requirements for reserves? The

Auditor General, I believe, and Mr. Hope both thought that they had been exceeded, so my question is: what are the legal requirements?—A. The legal requirements? There is first of all the statutory reserve, and the legal requirements for that reserve are that the board shall put into that reserve 25 per cent of the income after expenses until it reaches a certain point which has been reached, and from thereon in it should be 10 per cent of the net revenue of the board. Then there is a provision in our act—

The CHAIRMAN: That is under section 3 of the act.

The WITNESS: There is provision in the act in respect of the setting of the interest rates by the board and I shall now read it to you: I shall read to you from page 3 of the act, section 1, sub-section (a) as follows:

"The interest rate on loans shall be a rate that, in the opinion of the Board, is sufficient to provide for the interest payable by the Board to the Minister and the expenses of the Board, including reasonable provision for reserves against losses."

By Mr. Macdonnell (Greenwood):

Q. What is your answer to the statement that you are setting aside provision for losses above the legal requirements?—A. If those are the legal requirements, we have not set anything aside above them. In other words, we consider that the reserve for losses which we have set up are reasonable reserves for losses. Is that what you are getting at?

Q. Yes. That is the answer.—A. That is what I mean.

Q. You definitely take a position, contrary to that of the Auditor General that it is prudent and necessary for you still to go on establishing reserves?—A. Mr. Chairman, the bill which you have before you corrects that situation.

Q. The other thing is this: what we want to know is this: could you tell us the number of loans refused in certain areas? You have given us several figures as to the number of loans made. I would like to have a corresponding figure as to the number of applications refused. If those figures are not available perhaps you could give them to us later, but I think it is very important.—A. Is it by area, or by years?

Q. Could you give us the overall figure and then give us two or three illustrations? I do not want to make it longer than necessary; but could you give it to us? You gave us one figure of eleven loans made in a certain time in the Regina area. I was surprised at the smallness of the number, but could you tell us if any were refused, and if so how many, and at that time, and in what area?—A. I shall get that for you.

Q. Could you give us the overall refusals?—A. Across Canada for the year?

Q. How would your records show it?—Would you be able to give us the records by provinces of provincial loans made and loans refused? Could that be done without a lot of extra work? How do you suggest that it could be done?—A. I think we could provide that for you without too much trouble.

The CHAIRMAN: Is that information particularly valuable without knowing the reason for the refusal?

Mr. MACDONNELL (Greenwood): I am glad you suggested that. I think we should have that too.

The CHAIRMAN: That may involve a lot of confidential information again. For example, they may just consider that a man is a bad risk personally, or has poor character or something. I do not think that the information you are asking would be of much value unless you know the reason for the refusal.

By Mr. Macdonnell (Greenwood):

Q. I agree that we must not ask for confidential information which might damage anybody. But I think a good deal of information could be given.—A. Probably I have some information here which is along the line you are seeking. I might say that if we had to give you the reasons why all loan applications were declined, it would be a terrific job. There are so many and varied reasons; but I have here an analysis which I had made in Ontario for the 1955 season. 13.8 per cent were declined because of ineligibility under our act.

Q. You say 13.8 per cent of all, or only of those that were declined?—

A. This is 13.8 per cent of all that were declined, not of all applications; only of those declined.

Q. Are you going to give us the number that were generally declined?—

A. I will give that to you later; but this will be for Ontario in 1955. 46.5 per cent were declined because of insufficient security for the amount of the loan; 1.4 per cent were declined because they were unable to give title; and 38.3 per cent were withdrawn by the applicant.

Q. That last might come very close to being refused.—A. No, it was a voluntary withdrawal on their part for some reason or other; they did not want to proceed with the loan.

By Mr. Argue:

Q. Did they get their \$10 back when they withdrew?—A. If the appraisal has not been made they get back the \$10; but if the appraisal is made, then we retain the appraisal fee.

Mr. MACDONNELL (Greenwood): I do not want to take up time unnecessarily, but I think those figures are very essential.

The CHAIRMAN: Have you the figures for the number of loans turned down in Ontario for the year, and the number refused?

The WITNESS: 376.

The CHAIRMAN: And how many loans were made, declined, or withdrawn?

Mr. FAIREY: You gave us 428 in the first place.

The WITNESS: Yes.

The CHAIRMAN: You jotted that down.

Mr. FAIREY: I have 428 given for Ontario.

The CHAIRMAN: And how many were declined?

The WITNESS: 376.

By Mr. Cameron (Nanaimo):

Q. I notice that Mr. Chester was listing the percentages of loans that had been declined by the board, refused by the board, and in those percentages he listed, I think, some 38.3 per cent that were voluntarily withdrawn. Should they really not be included?—A. Our records are made on the basis of declined, and withdrawn, as combined figures. That is the way that we treat them. Once we receive an application we must dispose of it in some way; either it is approved, declined or withdrawn. We do not have a breakdown of "declined" and "withdrawn" into categories. We combine them with the other reasons why the loan did not eventually receive approval.

Q. It occurs to me that in respect to the percentage of loans declined, there would be more than 80 per cent which were actually declined for insufficient security, and if we eliminate the 38.3 per cent which were voluntarily withdrawn, would not that person normally appear in the reasons for decline?—A. I do not know how you can interpret that, because the actual figure of the number we decline for this reason is 46.5 per cent.

Q. On the basis on which you estimate your percentage, that includes 38·3 per cent which you say were declined, but were in fact voluntarily withdrawn.—A. As far as we were concerned it was the same thing. They did not become loans.

Q. That does not give an answer to Mr. Macdonnell's question.

The CHAIRMAN: I think that Mr. Cameron has a point there; that is, if you deducted from those loans which are not proceeded with, those which had been voluntarily withdrawn, it would leave you with those which you would actually decline for some reason, and then your percentage would be changed.

The WITNESS: As of a total, at any time, it would. That could be figured out. If you have the percentages and the totals, you may do a little arithmetic.

Mr. CARRICK: Does the figure of 38·3 include the number declined?

The WITNESS: Yes.

The CHAIRMAN: It obviously includes the percentage of the total which were declined.

By Mr. Michener:

Q. I understood Mr. Chester to say that the proposed amendment to section 9 would alter the requirements for reserves. Is this new section 9 the recommendation of your board?

The CHAIRMAN: You mean section 7.

The WITNESS: New section 9 is part of the bill which is presented to you by the government.

By Mr. Michener:

Q. I know that, but is this the idea of the board as to what shall be done about reserves? They propose an amendment to section 9.—A. This is the conclusion which has been arrived at by the government to present to parliament.

Q. I know that, but does the board go along with the government?—A. The government, before it made this policy, consulted us. Further than that I do not think we can say anything.

Q. What is your personal view, as Chairman, about this proposed amendment? Will it change the practice with respect to reserves?—A. Undoubtedly it will change the practice.

Q. In what way?—A. Our reserve fund is now fixed at \$3 million. Our capital is set at \$3 million therefore our reserve limit is fixed at \$3 million, or not in excess of the capital.

Q. In the future, what will it be under this proposed amendment?—A. It will remain stationary until such time as our capital is increased.

Q. That is the very idea of what will be done if the amendment is passed; you will keep the reserves at this present amount until your capital increases?—A. Or until it is reduced. We cannot exceed our capital; it can be reduced by losses, of course.

Q. I am interested in knowing how you would interpret the section because it says that the board shall establish a reserve out of which may be paid any losses sustained by the board in the conduct of any of its operations under this act.

The CHAIRMAN: In sub-section 2 it goes on to suggest what the reserves should be.

Mr. MICHENER: Where is that?

The CHAIRMAN: Over the page.

By Mr. Michener:

Q. But the requirements of that section would require a 100 per cent reserve because any loan or any part of a loan might be a loss, and it seems to me that if the intention is to reduce the legal requirements there, you would not have as much reserves and that this amendment is not going to do it.—A. What this amendment does is this: we presently have two reserve funds which in total exceed \$3 million.

Q. That is about 10 per cent of the amount you have on loan. According to your last statement, the reserves under section 9 are \$878,000, and other reserves are \$2,349,000, which comes to just over \$3 million; and the amount you have on loan to farmers is \$38 million. So you have not made it a percentage of the amount of loan. Can you tell me how you expect that the amendment will alter that situation?—A. Well, first of all the amendment reduces the amount we now have in the total reserve to \$3 million and that is now fixed. We cannot exceed \$3 million as long as our capital is \$3 million. But out of that one reserve all losses sustained by the board in any manner whatsoever shall be paid.

Q. And the surplus over \$3 million will be paid?—A. To the Receiver General of Canada.

Q. You say it will be paid to the Receiver General of Canada?—A. Yes, the present surplus over \$3 million.

Q. Yes.—A. Any surplus from our yearly operations will, as well, be paid to the Receiver General, providing our reserve fund is at its maximum of \$3,000,000.

By Mr. Mitchell:

Q. Practically speaking, if you start out with \$3 million, and at the end of the year you have \$100,000 loss, that will come out of the \$3 million, and then you go ahead and build up the \$3 million again before you pay any money to the Receiver General?—A. That is exactly right.

By Mr. Bryson:

Q. Mr. Chester, did I understand you correctly a moment ago to say that some loans are declined because of the fact that the applicant was unable to satisfy the board that he was a bona fide farmer at the time that he made the application?—A. That is correct.

Q. That is substantially correct?—A. Yes.

Q. Do you mean that, in the case of a young man who has considerable farming experience but when he makes an application does not at that moment happen to be a farmer that his loan would be declined?—A. No. If he is a farmer, or about to become a farmer; if farming is generally described as being his occupation, he is eligible.

Q. How does that statement square in with your first statement that some loans have been turned down?—A. We receive many applications in the Ottawa area from people who work for the government who are part-time farmers and they do not qualify. By our principles that is not farming and is not going to be farming at the time we would disburse a loan.

Q. Say a man wanted to become a farmer and had a farming background, would you give consideration to such an application?—A. Absolutely, yes. As long as the purpose of the loan is to establish him as a farmer and that is going to be his occupation.

Q. Regarding the appraisers, do you have a fairly uniform system or method of appraisal all over the country?—A. Pretty well, yes. Of course, the values vary considerably.

Q. I mean the method, the actual mechanics.—A. Yes.

Q. In that case, would you consider it advisable to use the Saskatchewan assessment? I understand that while there is frost on the ground and snow on the ground appraisals are not made by the appraiser?—A. That is correct.

Q. And there is a delay there of approximately six months in every year. Your methods of appraisal, I presume, are about the same as those used by the assessment commissioner in the province of Saskatchewan. Would you not consider that it would be advisable to use that assessment as a guide towards the appraisal?—A. We have answered that question previously. I think that the shortest answer and the most complete one I can give is that the municipal assessment in Saskatchewan does not include buildings on any farm and our loans do include buildings. I do not see how we could loan on land only.

Q. You can appraise buildings in the wintertime?—A. If you can get to the farm; but there are many other things, as I explained to this committee, which enter into the making of a loan. Obtaining the personal report on the man is, of course, essential. The type of farming he carries on; is he a good farmer, and what is the cultivation of his land? We do not always know whether it is a stony area. There are many things. There are certain situations where we would not want to take a farm as security. There are so many other things which enter into the making of a loan. But as far as municipal assessments are concerned, we could not in my opinion advance any loan on that one factor alone. I think it would be impossible and irresponsible for us to do it.

We made a loan in British Columbia the other day. I just happened to notice the municipal assessment was \$597; we appraised the farm at \$2,588.88. That shows the ridiculousness of trying to do loaning on municipal assessments across Canada. There are some areas, particularly in Saskatchewan, where they are a very good guide and we use them as such; but I think it would be irresponsible on our part if we used them exclusively.

Q. I had in mind the soil types which, in the province of Saskatchewan, are a very comprehensive thing.—A. Soil maps?

Q. Yes.—A. They are used extensively by us.

Q. Would you not consider that a fair guide during the winter months, rather than hold up a loan for six or seven months?—A. Only a guide.

Q. Do you not use the same method of arriving at soil types as they do in the provinces? You take samples, and so on?—A. Yes. Our appraisers take samples, but there are so many other factors which come into mortgage loaning on farms that there is not any one factor which you have mentioned which we could take as one on which we could finalize any loan application.

Q. In so far as the land itself is concerned, what other factors would there be on which you could not appraise during the winter?—A. The cultivation, and various things affecting soil, land, production and drainage.

Q. We are talking about the farmers' ability to farm. Could you not find out that information at any time?—A. In certain areas we possibly can find that out such as where they are growing wheat which has to go through an elevator and we can check and back-check; in other areas, no.

By Mr. Quelch:

Q. Mr. Chester, I understood you to say at a former meeting that no areas were blacklisted. Could you say how many loans, if any, have been made in the special area of Alberta? I might mention here for information of the committee, that the special area comprises an area of around 7 million acres in the southeastern part of the province.—A. I would say very few, if any. I doubt if we have made any in recent years. There were some made in the first years of our operation.

Q. I am asking whether you could not reconsider your policy in that respect. I can quite appreciate why there were no, or very few, loans made in the early years because the majority of the farmers in that area went

broke. Sixty per cent of them, I think, pulled out. There has been an entire reorganization in the last 20 years and you have an entirely different picture today. A lot of that area is as prosperous as any, due to reorganization. Some of the larger farmers hold two or three sections in their own name and perhaps have a lease on 2,000 acres, and, farming on that basis, they have become quite prosperous. In many cases they find they can carry more stock and wish a loan in order to buy livestock; or, a farmer is selling out and his son takes over the farm and needs capital in order to try to stock the farm. That area today is a very different area to what it was 15 years ago. I think that you will be able to reconsider your policy in that area?—A. We have no policy in that area which says we will not loan money.

Q. I wrote you last year regarding a farmer I know and it was with respect to an extremely good farm.—A. True, we would not make a loan as applied to that particular farmer. It was not because it was the area; there were other reasons. I appreciate the fact that this special area in Alberta has gone through a very extensive reorganization as you have informed the committee. Many people—I think you said 60 per cent—have moved out of the area, and, as a result, larger units are available and are being used by these people. Also there is much grazing land which is rented by the provincial government at a very low rental based on the increase in production of cattle. Also, if my recollection is correct, I believe that no new person can come into that area and purchase land, so the only people we can deal with are those already established. Now, those that are established in such a manner that they can convince us that they will be able to repay a loan from this board, will certainly receive very favourable consideration if they apply to us. Incidentally, I might say that we have had very few applications for loans from that area.

Q. No new farmer can come in there to get a lease unless he owns land, but can come in and buy land from a farmer holding land in that area. It was the attitude of the V.L.A., at one time, that they would not make loans, but they have changed their principle in the last few years and are making loans, to veterans who wish to settle in that area.—A. As far as I know there is no policy of the board which restricts us making loans in that area.

By Mr. Weaver:

Q. Mr. Chester, in the first question that you answered about the list by provinces of losses on loans over a period of time, the province of Saskatchewan stood out very much over the others; it was a very small loss.—A. One of the main circumstances there was that we did not start loaning in Saskatchewan until 1935. If we had been loaning in 1930, the picture would have been entirely different.

By Mr. Argue:

Q. You gave Mr. Macdonnell a list of the percentage of applications which had been turned down, or withdrawn, or rejected. You probably gave him the total number but I did not get that. A. It was 376.

The CHAIRMAN: For Ontario, 376.

The WITNESS: In that one year, which included some 38 per cent which had been withdrawn voluntarily.

By Mr. Argue:

Q. Of the 46 per cent which you list as having been turned down because of insufficient security, was an inspection or an appraisal made?—A. I do not have the record of that, but I would say by far the majority of these inspections were made.

Q. Generally, when you turn down an application because of insufficient security it means that an appraisal has been made?—A. Generally speaking, not always. A man might apply for a \$10,000 loan on a \$5,000 farm. We know that his farm is worth approximately \$5,000, within a certain range. We get many applications where the amount applied for is far in excess of any value that you could put on the farm for loaning purposes.

Q. You know that for what reason?—A. We have records built up over a period of 25 years. We have detailed records of the area, and we have discussions of our experience.

Q. You gave us some figures a number of days ago. These are the figures which I have written down, that of the 4,892 applications 2,145 were approved. That was quite a few days ago and I am not sure about them. A. I do not recall those figures, Mr. Argue.

Q. Well, can you then right now for a given period, give me the number of the applications and the number of applications approved?—A. I have the figures for this past fiscal year which ended March 31, 1956: total applications, 5,459; number approved for loans, 2,083, number declined, 2,268; number still in process, 1,110.

Q. How many were declined?—A. 2,268.

Q. Why do you take that figure and not the figures I have referred to? You listed 1,237 loans as being made the previous year in your first submission to the committee. I take it that that was based on applications for some 4,800 or 4,900. How many \$10 fees do you get in any given period? In other words, when an application is turned down, do you get the \$10 fee?—A. In 1,157 cases the \$10 fee was not returned.

Q. How many applications in that period were withdrawn?—A. The withdrawn, I included in the declined; they are combined.

Q. Are the ones withdrawn in the 1,157?—A. Yes, some of them undoubtedly are.

Q. What happens when a person withdraws his application? Are you telling us that you have 1,000 people—let us call it that—who make application and attach their \$10 to the form and then they say, at one point or another, that for one reason or another they do not want the loan and wish to cancel the application, are they given the \$10 back?—A. Yes.

Q. But those people do not have their money returned who are listed as having withdrawn their application because the board, or some representative of the board, sends them a letter saying, in so many words, you cannot get a loan and there is no use having an appraisal, you lose you \$10 and therefore we suggest we return it to you. Those are the people whom you referred to as having withdrawn and a lot of them have been turned down before an appraisal was made?—A. They have not been turned down before an appraisal was made. There might be some of them discouraged from proceeding with their application. It is still up to them whether or not they withdraw.

Q. When you have discouraged them from applying and they have withdrawn, then you mention them in your category as having withdrawn?—A. No. We list them as being rejected. They are included in the rejected.

Q. Then who withdraws?—A. The applicant withdraws.

Q. He withdraws voluntarily?—A. Yes.

Q. He withdraws without any intimation having been given to him that if he proceeded he is not likely to get a loan?—A. I said that there are cases where we discourage people. For instance, when an appraiser gets to the farm and looks over the application and it is for a \$10,000 loan, he just glances at the farm, and his past experience indicates, amongst other things, that it is very unlikely that that man would get a loan of that size; then he would tell him it is unlikely and say, "Do you wish me to proceed with your applica-

tion or with an appraisal on it?" If he makes the appraisal we retain the \$10. On many occasions, a man might say—I do not know what he says to himself. I just caught myself in time there. At any rate, he decides to withdraw and it is quite voluntary on his part.

Q. He can retain his \$10; I will agree with you on that. But after you have told him in so many words that he is just going to lose his \$10 if he goes ahead, you will show that as having been a withdrawal?—A. No. It would be shown as rejected.

Q. But it is a withdrawal.—A. They are included in the rejections; they are combined. The total is listed by us as being rejects, but in that total are those that have been withdrawn.

Q. And they are withdrawn because the hint has been made?—A. In many cases, but all of them are withdrawn by the applicant.

Q. But in many cases they are withdrawn because the applicants are informed that they might not get a loan if they went ahead with the application?—A. I would say that there are probably a few cases of that nature, how many I do not know.

Q. There are cases where a man sends you the \$10 when he is applying for a loan and you do not make an appraisal but send him a letter telling him that he has not been able to comply with certain conditions and you enclose the \$10 suggesting to him that he had better not go on with it. In other words, you are the people who get him in that predicament?—A. No; it is a declined application in this case and we accept that responsibility, returning his appraisal fee.

Q. And you have listed him then as a definite reject and not as a withdrawal?—A. Yes.

Q. You listed 4,890 some odd over \$5,000 the last year as having applied for a loan. Have you any information at all as to the number of people in addition to that number who might have written in to you making a definite inquiry about a loan giving you certain detailed information about where they might live and that you might have said to them "we will take your application, but on the basis of the information which we have now it seems quite evident that you cannot get a loan"?—A. We have no record of those people. We have a great number of people who make casual inquiries by correspondence, by visiting at the office, by telephone and in other ways. No record is kept except possibly a memorandum for the use of the branch office as to the interview and what was said and done in the interview.

Q. Can you give me the number of inquiries you have in writing in a year for loans?—A. We do not have those figures and it would be very very difficult to obtain them.

Q. I am suggesting that there are thousands of persons who would like to get loans and would like to get applications but are refused or turned down or discouraged before an application has been made, so that when we say that there are 40 per cent of the applications approved, that that is rather a high figure if it were related to the number of application or to the number of inquiries made by people who would like to have a loan many of whom are discouraged even from filling in the original application.—A. Your guess is as good as mine on that.

Q. You have heard the evidence from Dr. Hope that at least in certain areas you should not refuse an appraisal because there is snow on the ground. What is the period during which you do not make appraisals because of snow on the ground or because of winter conditions?—A. It depends, of course, on the weather.

Q. Have you a regulation saying that appraisals cannot be made during the wintertime or during a certain period?—A. We have a regulation which says

appraisals must not be made when the ground is frozen or covered with snow sufficient that a complete report could not be made on the cultivation and on the farmland itself.

Q. Is that restriction on the time when appraisals can be made, therefore a restriction that is brought about only because of a regulation by the board? In other words, it is your own precaution as you see it?—A. It is policy.

Q. It is not in the act?—A. No. It is a regulation made under the act by order in council.

Q. With great respect, I would suggest that that particular regulation should be amended. I can well understand the board's reluctance to generally making all sorts of appraisals during the wintertime, but I cannot see any reason why the board should tie its own hands and its own administrative machinery if there are certain cases where a loan can be reasonably made even with snow on the ground.

Mr. BENIDICKSON: Is this a question or another statement?

Mr. ARGUE: I am going to ask the witness his opinion on this. I think it is important and I do not think that suggestion is much of a contribution.

By Mr. Argue:

Q. Does Mr. Chester not agree that there are some instances when an appraisal could quite well be made in the wintertime with adequate protection to the board? Could you not make a lot of them on this Regina land where an application is made for a small amount of money on a given parcel of land. The land is uniform; there are no stones; you do not have to worry about that; you just know there are none. The land there is level.—A. All I can say is this: the considered opinion of the board has been for quite a number of years, and of all the officials of the board, that it is not good policy, nor good business, nor using ordinary good judgment, to authorize appraisals under the conditions which you have suggested that they should be done.

Q. And for what reason?—A. I think that I have given you the reason many times, Mr. Argue.

Q. Well, I suggested the board is in error in that regard. We have heard a lot of complaints about the length of time it takes to get a loan processed. I believe you made the statement this morning that you are going to attempt to speed up the process?—A. We are always attempting to do that.

Q. Usually then without too much success because we have had evidence that it takes a long long time.

Mr. RICHARDSON: Not necessarily at all.

Mr. ARGUE: It takes months.

Mr. RICHARDSON: It is good business judgment.

Mr. ARGUE: I am surprised to hear some members infer that Dr. Hope did not know what he was talking about because he many times said that the length of time taken was too long, and I think Mr. Chester has almost said that.

Mr. JOHNSON (*Kindersley*): They take a lot longer than the small loan companies do.

By Mr. Argue:

Q. Mr. Chester, you have given us evidence on this and have said that you are always endeavouring to speed up the business. Would you tell me in what way you think you will be able to speed up the process this coming year?—A. We have already done it in respect of Ontario and Saskatchewan, by increasing the number of employees who handle the work.

Q. I am very pleased to hear that; that is good information. Is there anything else that you have done to speed up the process of making applications?—A. Instructions have gone out to our branch managers that there shall be no unnecessary delays and that they will be responsible to the head office for undue delay.

By Mr. Hollingworth:

Q. Does the board have its own solicitors?—A. Only in Ontario and Quebec; all others are handled by agents.

The CHAIRMAN: Would you like to get some business, Mr. Hollingworth?

By Mr. Monteith:

Q. Mr. Chairman, could I ask a question or two on this reserve business. On page 8 of the report there is a deduction from surplus or adjustment of prior years' income tax provisions of \$16,143. I wonder if Mr. Chester could tell me just how that arose and why that adjustment is there?—A. What report is that?

Q. At page 8 of the report. I suppose it is just an accounting procedure and adjustment of the prior years' taxes caused by insufficient having been set up?—A. I think that I had better have our chief accountant answer that question. I am informed that it is as a result of a battle which we had with the income tax department which we lost.

Q. Did it have anything to do with losses written off?—A. No. It was just in respect to income tax. In other words, we did not think that we should have to pay so much and they thought that we should have to pay it and we had to pay it.

Q. Then, turning to page 7, I notice your net earnings before provision for income tax were \$162,951; then you do provide for income tax of \$73,341; then coming to net earnings, carried to statement of surplus of \$89,610. That is, there are no losses included in the expenditure there whatsoever?—A. No losses on loans you mean?

Q. Yes.—A. That is right.

Q. I notice on page 8 again that you have added back that \$89,000 net earnings after taxes in 1955, then you have deducted it to amounts which are carried to reserves. Did you write off any losses in 1955?—A. Yes, but very small.

Q. But they would be charged?—A. Charged to reserve for losses.

Q. Well, the point I am trying to get at is, in arriving at your income tax provision are losses allowed; are the actual losses written off?—A. There is a new provision in the Income Tax Act that does allow them. Prior to last year they were not allowed.

Q. Losses were not allowed for tax purposes?—A. I think that our chief accountant had better answer that.

Mr. R. McINTOSH (*Chief Accountant, Canadian Farm Loan Board*): Mr. Chairman, as far as I could make out from the income tax department it is not worth while. The losses were not sufficient to take into account because the next year you have to add them back in along with your gains. We were just as far ahead not to take in those losses.

Mr. MONTEITH: We were given the figures this morning that in Alberta there were losses of \$232,000.

Mr. McINTOSH: Yes. The income tax provision, as far as corporations are concerned, just came in effect in 1952. Crown corporations were not subject to income tax before 1952.

Mr. MONTEITH: Since then you are actually being allowed losses?

Mr. McINTOSH: There is a special provision in the act, under section G of the Income Tax Act, where you can set up certain reserves.

Mr. MONTEITH: Do you contemplate any increased reserves in the future being deductible for income tax purposes?

Mr. McINTOSH: It will be this year.

Mr. MONTEITH: If this reserve is deductible, it must be an admissible reserve in the view of the Department of National Revenue before it can be deductible so that the Department of National Revenue will take the figures supplied by you, following out of this Bill 84, in the future as the amount deductible for tax purposes?

Mr. McINTOSH: I think under the first year of operation under the new section of the Income Tax Act, that you are allowed 3 per cent of your assets to set up as reserve for income tax purposes only.

Mr. MONTEITH: Is your board in the same position as a crown corporation?

Mr. McINTOSH: Yes. They are allowed to set up 3 per cent the first year and then after that it is adjustable.

By Mr. Charlton:

Q. Mr. Chester, I recall quite vividly in the early part of the questioning when I asked the question if you used the assessed value in any way of farms in your appraisal, that you definitely stated no. Now, I understand that you do use it in Saskatchewan as you said this morning.—A. I should qualify that first statement. It is only a guide. We only use it as a guide. Values have no relation to it except that it gives us a picture along with many other pictures which we receive.

Q. That being so, the suggestion which I made to you that the local appraisers would be much more valuable to you than an outside appraiser going in to the district would be a good suggestion. You say that in Saskatchewan you will not make an appraisal in the wintertime and still you have that soil map. Obviously, buildings are not covered up with snow in the wintertime and you could inspect the buildings. That seemed to be the reason why you would not make appraisals in the wintertime, because Saskatchewan buildings were not included in that appraisal. Is that not true?—A. That is only one of several reasons. We do not think it is sound loaning practice.

Q. We will let that go at that then. Do you not believe that the local appraiser is more valuable to you than the outside appraiser going in?—A. No, for the simple reason that our full-time permanent employees have a certain area which they know from experience. They have appraised a great number of farms. Some of our men have been with us over 20 years and average over 100 farms a year, which is 2,000 farms in that area. I do not think there is any local person who can tell that appraiser very much that he does not already know about any particular farm or about the area in which he is appraising.

Q. How large an area would an appraiser have?—A. Are you referring to Ontario now?

Q. Yes.—A. It is very difficult to answer the question as to how large an area it is.

Q. How many appraisers have you working in Ontario?—A. Five full-time men.

Q. And those five appraisers are supposed to cover the whole province?—A. They do not cover the whole province; I should say they do cover the whole province but they do not do all the work in the province. There are part-time appraisers who are local men who do appraisals in their local districts.

Q. How many part-time appraisers do you have working in Ontario?—

A. In Ontario I would say seven or eight. I would have to get the exact figure for you. I would say offhand about eight; there might be a few more or a few less.

Q. And you suggest that five full-time appraisers can make the appraisals necessary in the province of Ontario with the assistance of eight part-time appraisers and that they would know the local conditions of that area?—

A. Yes, they do.

Q. You have used three terms here, Mr. Chester, in the 38.3 per cent which you told us were loans which were withdrawn by the applicant. You used the term that they would be rejected by the board but still would be counted as being withdrawn. If you classify those as rejected applications, then why can you not give us the numbers of those that were classified as rejected?—

A. I do not suppose it would be impossible for us to do it. It just is not the way we keep our records.

Q. You said that these 38.3 per cent were withdrawn by the applicants, in answering Mr. Argue's questioning when he was pointing out that probably they were withdrawn because you had discouraged them, and I submit that probably for every one discouraged by the board there is probably one discouraged by himself. But, nevertheless, you did say those were classified as rejects by the board.

The CHAIRMAN: What he said was this, that all applications that were not proceeded with were classified as rejected but that in that classification he again broke them down as those rejected for certain reasons and other reasons and those voluntarily withdrawn. In other words, the whole category is categorized as rejected and then within that category of rejected or declined there is a further category of applications withdrawn.

Mr. CHARLTON: I do not agree with you. 38.3 per cent is the figure he gave us as withdrawn by the applicants.

The CHAIRMAN: Within the category of rejects.

Mr. CHARLTON: Of all the refusals.

The CHAIRMAN: All those not concluded with were characterized as rejects and 38.3 per cent of those were voluntarily withdrawn. He said they were characterized under rejects, so all those voluntarily withdrawn are characterized in that category of rejects and refusals and inside that they are broken down further.

The WITNESS: 46.5 per cent were declined for insufficient security, 1.4 per cent were unable to produce the title and 38.3 per cent were withdrawn by the applicants.

The CHAIRMAN: Yes.

By Mr. Charlton:

Q. In answer to a question asked by Mr. Argue, when he was trying to point out that part of these you had shown as withdrawn by the applicant were in fact rejected by the board in a letter or in some other way, you termed them as rejects by the board.

The CHAIRMAN: Under the larger category of rejects.

By Mr. Charlton:

Q. That was not as I understood it. As I understood Mr. Chester, he said, when answering Mr. Argue, that they were all withdrawn by the applicant and Mr. Argue pointed out that they were withdrawn by the applicant because of something which the board had told them and that they were called rejects

by the board.—A. Of the total 100 per cent of rejects by the board, 38·3 per cent are included in that total and are those withdrawn by the applicant. Is that clear?

By Mr. Monteith:

Q. 38·3 per cent of the 376?—A. Yes.

Mr. CHARLTON: Which you call rejects?

The CHAIRMAN: Voluntarily withdrawn.

The WITNESS: 376 are rejected. Of those 376 38·3 per cent are withdrawn.

By Mr. Charlton:

Q. You used another word, declined. You are now saying, Mr. Chester, that in order to save the applicant the \$10 fee that you do not discourage anybody and that those whom you might discourage would not be included in your 38·3 per cent?—A. We do discourage some applications.

Q. What I am trying to get at is this. All those which you consider as withdrawn by the applicant are not withdrawn entirely of their own volition. Something which the board has done or said to them more or less occasioned the withdrawal by the applicant?—A. All applications are withdrawn of their own free will and nothing else. They do not have to withdraw them.

Q. Nobody suggested that they had to withdraw them.—A. What are you suggesting?

The CHAIRMAN: I think what he is suggesting is this: out of those listed there as voluntarily withdrawn, there are some in that 38·3 per cent withdrawn by reason of discouragement by the board.

The WITNESS: I think, in answer to Mr. Argue, that I said yes to that statement.

Mr. CHARLTON: In my notes I have it that you called them rejected.

The CHAIRMAN: In the larger category.

Mr. CHARLTON: Within the 38·3 per cent. I have my notes here which I took when Mr. Argue was asking his questions.

The CHAIRMAN: I understood when he was referring to voluntarily withdrawn by encouragement of the board that he was only referring to it as part of that 38·3 per cent in the larger category of 100 per cent as rejected by the board.

The WITNESS: There are 376 rejects for various reasons. Of the 376, 21 were encouraged by us to withdraw.

By Mr. Charlton:

Q. Then the 21 would be included in the 38·3 per cent?—A. Yes.

Q. The 21 would be included. That is just the very point.—A. I have been saying yes to that question right along.

By Mr. Fairey:

Q. I think that that 38·3 per cent works out at 143 total in the classification of withdrawn and that of those 143 Mr. Chester told us 31 were encouraged to withdraw, leaving 122 who withdrew voluntarily without encouragement.—A. It is certainly voluntarily on their part.

The CHAIRMAN: Those figures are only for Ontario in one specific year.

Mr. CHARLTON: 1955.

The CHAIRMAN: Yes. They are not national figures.

Mr. CHARLTON: I did not suggest they were.

By Mr. Charlton:

Q. Now, Mr. Chester, ordinarily a person who wants to apply for a loan will write in to the board for the application form?—A. Yes.

Q. Is there any place else that he can obtain application forms?—A. I hardly think so. We supply information about our policies to banks and various other people who might be interested on behalf of a customer who requires a long-term loan. I do not think there are many application forms secured other than through our branch offices.

Q. You do not supply forms to banks or to any agricultural representative in Ontario to hand out?—A. Some of them write in and as a result of that we supply them. If they want those application forms they will get them. There is no objection to having them in the hands of banks or agricultural representatives or people such as that.

Q. In many cases in those letters applying for the application forms do you not get a considerable amount of information relative to the loan in that original letter?—A. I would say that in the majority of cases we do not get any information, but rather a request for information from the applicant, and then, as a result of that, we give them the information they ask for and an application form. That is the usual procedure. In other words, people have heard that we make loans. They need a loan and are interested in getting one and they inquire from us for information concerning our board's loaning operations which we send back to them.

Q. But, in turn, do they not give you the acreage of the farm?—A. Not very often; sometimes, yes.

Q. In some cases where I have been asked to assist in trying to obtain a loan I have received copies of correspondence in which I noticed there were many cases where quite a full description of the farming operations was given. As a matter of fact, they were not even sure that there was an application form which they had to fill out. They thought they could write in and give the information in a letter.—A. Sometimes we get letters of that type, but I can assure you that it is not so in the majority of the cases.

Q. You said this morning, while being asked about the fact that these loans could not be processed at the branch office, that there were many other places where the processing could be speeded up rather than this one of not sending the applications in to Ottawa. I would like to hear your comment on the other ways in which the loans could be speeded up.

The CHAIRMAN: He has already done that. That question was asked in almost the same words which you used and has been answered.

The WITNESS: I told the committee that we have already employed more people in the board in Ontario and Saskatchewan branch offices for that purpose for this year.

By Mr. Charlton:

Q. Is that the only thing that is necessary to increase the speed at which loans can be processed?

The CHAIRMAN: He also stated that he had sent instructions to the various branch offices advising them to speed up the loans in all possible ways.

By Mr. Charlton:

Q. It was my understanding, Mr. Chester, at the first day's sitting, that the slowing up of applications was not in the board but in many cases was a question of land title searches, and a hold-up on the part of the lawyers who had to process the papers. Is that not correct?—A. That is part of it, or it is part of what people say are the delays, but that is unavoidable in so far as the board is concerned. Once the loan gets in the hands of the solicitor he is acting as an agent of the borrower.

By Mr. Fairey:

Q. Does the board insist upon the registrar's abstract of title, because that is where a considerable delay might occur?—A. In what province?

Q. In any province?

Mr. W. A. REEVE (*Secretary, Canadian Farm Loan Board*): In Ontario we have a solicitor's abstract of title. It is different in each province.

Mr. FAIREY: That might cause a delay?

Mr. REEVE: It might, yes.

Mr. HOLLINGWORTH: You have the Torrens title system?

Mr. REEVE: Yes. There are searches necessary.

By Mr. Richardson:

Q. Would it expedite the processing of these loans, in which I am sure we are all interested, if there was appointed to the board at the various offices a full-time solicitor?—A. I doubt it very much.

Mr. REEVE: No.

Mr. RICHARDSON: You do not think so?

Mr. REEVE: No. In all our offices except in Ontario and in Quebec we use outside solicitors of long experience who are accustomed to handling our work.

By Mr. Richardson:

Q. In other words, you do have in those particular provinces, more or less a full-time lawyer upon whose services to call?—A. Yes. He is not a salaried employee, he is an outside independent solicitor.

By Mr. Hollingworth:

Q. How much longer does it take to process these things in Ontario than in Saskatchewan or Alberta?—A. In Ontario practically all our loans are under the registry office system and it is not a fast system. Under the Torrens system in the other provinces it is a good deal faster in so far as the legal work is concerned.

Q. Would it not be better in Ontario to have a solicitor appointed to the board?—A. We have in Ontario. We have a solicitor in our branch office in Ontario who operates through agents.

By Mr. Charlton:

Q. Do I understand that you do have in effect a full-time lawyer in Ontario doing your work for you although not a full-time employee of the board?—A. He is a full-time employee of the board.

Q. And he processes or sees that all loans are processed?—A. Yes.

Q. Would it be a fact that you might have a lawyer in each county who does your work for you?—A. As an agent of his.

Q. And there is no way that you could speed up the processing of these papers, that being the case?—A. Well, as you suggested, we are considering it. It is certainly before us all the time and we feel that this is the quickest way we can do it. We do not know everything, however, and there may be other methods.

Q. I am not suggesting that there is another method, but if you are paying these men a reasonable salary probably they could be persuaded to speed up a little.—A. What men are you referring to?

Q. The agents of the lawyer in charge.—A. We think we are paying them reasonable salaries.

Q. You are paying the agents a fee?

The CHAIRMAN: All lawyers are busy today and they take things in turn, and they will not prefer it over and above their own clients.

The WITNESS: Every fee is paid by our borrowers, not by the board. The borrower pays the legal fees.

By Mr. Charlton:

Q. Does he pay it direct or does he pay it through the board?—A. It is paid in various ways, either direct or out of the loan. In any event, it is paid by the borrower.

Q. I suggest that the agent, knowing that this business is his anyway, might put it at the bottom of the file for a period and let it lay there for a few days. I think that might be discouraged.—A. It is. We keep track of the processing of the loans by the lawyers, and they are written to if there are any delays.

Q. Have you in any case changed the services of your agents in the various counties or districts if there have been unnecessary delays?—A. Not recently.

Q. Have you ever?—A. I have only been on the board a few years. I am informed that we have.

The CHAIRMAN: There is a meeting at 3.30 this afternoon and we will assemble then and see if we might finish with Mr. Chester.

AFTERNOON SESSION

TUESDAY, April 24, 1956

3.30 p.m.

The CHAIRMAN: Gentlemen, we will now proceed. Mr. Carrick, did you have some questions?

Mr. CARRICK: No, thank you. The question which I had in mind was asked previously and answered.

By Mr. Cameron (Nanaimo):

Q. I have one or two questions about the operations in British Columbia. I presume that quite a lot of your loans there, or a certain amount of them, must be made on quite small acreages devoted to fruit growing?—A. Yes, we have a small amount of loans there.

Q. Have you provision, such as the provincial taxation department has, for an acreage of 5 acres as the minimum size you will classify as agricultural land?—A. No.

Q. Or, perhaps, it is entirely based on whether the owner derives most of his living from agriculture?—A. Yes. We have no instruction as to acreage. Getting below 5 acres is getting to be a pretty small farm, of course, and that is naturally considered.

Q. The reason it came to my mind was because of the figure which you gave this morning about the municipal assessment on a piece of property of \$500.—A. Yes.

Q. I do not know what municipality it was. It must have been a very lenient municipality. I was wondering if that assessment was purely the land assessment?—A. Yes.

Q. It did not include improvements?—A. No, just land.

Q. Even then it seems very very low for land that you would classify as a farm.—A. On a municipal assessment if you have a low assessment you will have a high mill rate, and if a low mill rate you have a high assessment. It is only for the convenience of the taxing bodies.

Q. How many appraisers have you in British Columbia, Mr. Chester?—A. We have one appraiser full time in British Columbia. Our branch manager there is a qualified appraiser and when necessary he appraises. We have used the Veterans' Land Act appraisers in British Columbia in remote areas.

Q. From your point of view they would be mostly part-time appraisers?—A. Yes.

Q. Would you use any other people as part-time appraisers apart from the Veterans' Land Act people?—A. Not at the present time.

Q. You have none at the present time?—A. I will check that statement. I should qualify that by saying that we have in the Peace River block a seasonal appraiser who works both in British Columbia and in Alberta in the Peace River country. We also have a part-time appraiser in the old Grand Trunk line between Prince George and Prince Rupert.

Q. Have you an appraiser in the Okanagan Valley?—A. Not as such.

Q. You would use a V.L.A. man?—A. No. We would use a man from New Westminster.

Q. Is there any discrepancy in the length of time in appraising in British Columbia as between the other provinces?—A. No. The records will show in British Columbia that there is very good service. That is mainly because the season is longer there. We do not have a rush at the beginning of April or May because the season on the coast and in the Fraser Valley, for instance, is almost the year around and we have no accumulation of applications there. You can get to it in Vancouver Island most of the year and there is no accumulation there. There is, of course, a slow-down in the Okanagan and in the Cariboo, but it has never been serious. We have always been able to process them very promptly in British Columbia.

Mr. CAMERON (*Nanaimo*): Thank you.

By Mr. Fraser (Peterborough):

Q. How much of the \$716,000 that was written off was in second mortgages?—A. I do not think we have those figures, but our second mortgages are guaranteed by the government and if they are written off they also have been repaid out of the profits of the board.

Q. But you would still have a record of them?—A. Yes, we have a record of them, but we do not have it with us.

Q. That is what I wanted to find out—how much was paid to you by the government?—A. Anything the government paid to us has been repaid by us to the government. ;

Q. It has been paid back again?—A. Yes.

Q. That is what I wanted to find out.—A. I could get that for you. I do not have it available. Do you wish it?—A. Yes, for one purpose.

By Mr. Quelch:

Q. On page 11 of the report of the Canadian Farm Loan Board for 1955, I see: "Canadian Farm Loan Board particulars of accounts secured by agreements for sale as at March 31, 1955". What are those agreements for sale; were they in existence at the time the agreement was made as between an owner of the land and the farmer, or does it mean instead of that that a mortgage concluded the agreement for sale?—A. In most of these cases it covers securities which have come back into our hands and resold.

Q. Did you every make a loan on an agreement for sale that exists?—A. No. All were loans made in the first instance by way of a mortgage, and we must have a first mortgage.

By Mr. Hollingworth:

Q. I was wondering about the role of lawyers in Ontario. It seems to me that some of the time taken up in processing the loans could be shortened if you had some lawyers working for the department, and I understand that you have two or three at the head office and that most of the work is given to their agents.—A. No. We have a full-time lawyer in our Toronto office and he only uses agents for necessary disbursements.

Q. How offices have you in Ontario?—A. Just one, in Toronto.

Q. On this matter of the centralization of decisions, do you not think, despite the fact that you said practically all the loans were approved in Ottawa, that it would be advisable for you to allow the loans to be made in the branch offices rather than sending them to Ottawa. It seems to me that it would take more than three or four days. For instance, you would probably have to have a board meeting.—A. No. It comes to me and I either approve or decline it. That is done in all cases when the loan is received at head office from our branch offices. There is no delay.

Q. Is there not a great deal of delay when your Toronto lawyer turns it over to agents in Ontario?—A. I do not think that would be a big factor.

Q. The reason I bring this up is that I know what lawyers are like and also I know that some work like this would go to the bottom of the pile. I know that the difficulties under the Registry Act take some time, but it seems to me, personally, that you could institute some system whereby a few solicitors working directly with the department, other than as agents of the solicitor with the department, could get the work done more expeditiously?—A. We welcome the suggestion. We have a report at head office every two weeks on the processing of loans after they have left our solicitor's hands. We have the picture before us every two weeks, and if a lawyer is slowing down for any reason at all he is checked by the head office, or the branch office, or both. We keep pushing these. I do not know as much about lawyers as you do. But there are occasions when we do see a lawyer slowing down and we get on top of that layer and have the loan pushed through as quickly as possible. There may be many reasons for these delays.

By Mr. Crestohl:

Q. I do not think that Mr. Hollingworth's kind reference to lawyers should go unnoted. I think that Mr. Chester would be willing to tell the committee, notwithstanding that, that there is nothing more which could be done to expedite the granting of mortgages than is being done now.—A. That takes in a pretty broad territory. I would say we are doing everything we can to expedite mortgage loans.

Q. Would that include the referring of this to lawyers?—A. Yes. We watch the whole process from start to finish very carefully.

MR. HOLLINGWORTH: I do not want it construed that I would say anything detrimental to lawyers; but there is only so much we can do in the country.

By Mr. Michener:

Q. I wonder if Mr. Chester has computed the expense of operation of the board in terms of per cent of amount of loan? I have looked at it for the year ending March 31, 1955, and it appears that the expense of doing business was about \$609,000 and the amount of loan was about \$40 million, which would make the cost of doing the business what?—A. 1.39 per cent.

Q. Has that been the experience over the past number of years?—A. It has varied, of course.

Q. Within what limits?—A. I have here the complete records for 26 years. Do you want them?

Q. Just the upper and the lower limits.—A. The upper limit is the first year and it really is not an indicative year. There was a high cost of 4.4 per cent of investment, but we had no investment to amount to anything. If you go into the third year of our operation I think you would arrive at a figure which would be fairly stable, and that was 1.55 per cent in 1932. We have gone down as low as .96 per cent in 1943. Since 1943 there has been a continual upward movement, until 1951 when it was 1.51 per cent. Since 1951 it has dropped to the present, and when I say the present I am referring to the fiscal year 1955, 1.39 per cent.

Mr. MICHENER: Thank you.

By Mr. Fraser (Peterborough):

Q. In 1943 when you had .96, that was the lowest. Were the loans higher that year?—A. No. It was in a period when loans were being paid off and we were not processing very many new loans. Farmers in that particular year did not require the amount of loans that we had been accustomed to.

Q. What was the highest loan year during that period?—A. In the volume of loans?

Q. Yes.—A. The question is what was the highest loan?

Q. Your highest loan year during the period you gave of 26 years.—A. Do you want the combined first and second mortgages, or just the first mortgages?

Q. Just first mortgages.—A. In 1936-37 we disbursed \$9,269,188.

Q. What was the cost during those years?—A. In 1936-37 our cost was 1.53 per cent.

By Mr. Michener:

Q. In the lowest years, could you give us the volume of money paid out?—A. The lowest year was 1934-35 when we disbursed \$537,974.

Q. What was the percentage of cost that year?—A. 1.32 per cent.

Q. It appears that the act does not permit the board just to loan money on the security of farms, and the purpose of the loan is a very important field.—A. Did you say we were not allowed?

Q. The act does not simply give the board authority to lend money on the security of farms as another private lender might. The purpose of the loan has to be taken into account and the board is tied down to specific terms in section 7 of the act. My question is about subsection (iv) of section 7(b) which permits the board to loan money to discharge liabilities already accumulated. I want to ask whether the board considers the purposes for which those liabilities have been incurred in deciding whether it will loan money to discharge those liabilities?—A. We consider the purposes, but I do not think it influences us very much. Once a debt is incurred, it is a debt of that farmer and he has to pay it and wants to pay it by a long-term mortgage. It is perfectly within the rights of the board under the act to advance a loan for the purpose of repaying that debt.

Q. Even though the debt was incurred for something quite unrelated to his farming?—A. Yes. He might have bought an automobile or he might have gone to California for the winter.

Q. And it is legitimate to lend him money for that?—A. Yes, as payment of a debt.

Q. But when it comes to borrowing money to pay for future purposes, then the board not only wants to know what the purposes are but it exercises some control to see that the money is applied to those purposes?—A. Yes.

Q. I do not know whether this has been dealt with before, Mr. Chairman, as I have not been here every day, but I would like to know how far the board goes in seeing to the application of the money it loans to pay personal debts, the debts which were not charged on the land.

The CHAIRMAN: I think they pay them.

By Mr. Michener:

Q. This is an expenditure of money which you have agreed to loan for future purposes of one kind or another, and how far do you go in seeing that the money you are loaning is applied for the purposes for which it was borrowed?—A. Our loan approval itemizes where this money is going to go. It is up to our lawyers, in disbursing the money, to see that it goes for that purpose.

Q. How does he do that?—A. If it is to pay a debt, for instance, the debt is paid to the creditor and the mortgagor.

Q. The check is made to the creditor and not to the farmer?—A. I would say to both. It would be a combined check to the mortgagor and to the Royal Bank of Canada or any other creditor.

Q. Supposing the farmer wants to buy livestock, do you give him the check, or does he have to pay for it and then send the bill to the board and have the money disbursed?—A. No. It is done in various ways. An easy way for a farmer to take advantage of these special funds is for him to go to the bank and say, "Here, I have this loan approval for so much money", and we are perfectly willing to confirm it with the bank, and if he cares to borrow the money from the bank he can and we will pay the money to the bank. It depends on the loan; but in many cases we disburse the money direct to the farmer without any question. We have to have confidence in him that he is going to use it for that purpose and we are not fooled too often by that. If the farmer wants livestock he gets it and we provide the money for that purpose and 95 times out of 100 he uses it for that purpose.

Q. Then I take it that if you supervise the expenditure of the money which you are loaning, it depends largely on the individual case, on the confidence which you have in the farmer, and the purposes for which he is going to use it?—A. That is right. I would agree with that to a great extent, and also there is another large field where money is disbursed for the construction of buildings and we do that upon receipt from the borrower of the progress estimates. But we do withhold a portion of the amount until the job is completed and has been inspected by us. If it is a barn he is building, we probably would hold back \$300 or something in that neighbourhood, depending, of course, on the amount and other factors. We would advance the money as he required it up to the point of that last hold back and then we would send out our appraiser who would inspect the building being constructed and see that everything is in order, then we would disburse the balance of the money. Of course, we want to keep away from mechanic's liens as well.

Q. In your own opinion, do you think that this supervision of the disbursement of the money acts as a deterrent to farmers in seeking loans under this act?—A. I doubt very much if it deters them at all from seeking a loan. I can say that it would not for the simple reason that they would not know about it at the time they applied. I do not think it is a deterrent in that respect. We think it is good business to operate in that manner.

Q. You are required to do that under the act?—A. Pretty well, yes.

Mr. RICHARDSON: May I ask Mr. Chester what media the board uses for advertising that it has funds available for prospective borrowers?

The CHAIRMAN: He did answer that once before. I am sure he can give the answer to you again very quickly.

The WITNESS: We use the national farm journals. There are about 12 of them which we use for 5 months out of the 7 months' season.

By Mr. Bryson:

Q. Mr. Chairman, might I ask Mr. Chester one more question. When Dr. Hope was before the committee he was very critical of the period of 25 years for the repayment of the larger loans. When it was decided to increase the maximum loan from \$12,000 to \$15,000, did you give any consideration to a longer period of time for repayment?—A. Of course, the term of payment is in this bill. It is government policy. Now, what use can I say.

By Mr. Argue:

Q. Say what you think. Do you think it should be longer?—A. I have said what I think.

Mr. CARRICK: I do not think that this witness should be required to agree or disagree with government policy.

Mr. ARGUE: You mean that he should be required to agree.

Mr. CARRICK: It puts civil servants in an impossible position before the committee.

By Mr. Michener:

Q. Is it your opinion, Mr. Chester, that the expansion of the volume of loans would enable you to reduce the percentage cost of doing business below what it is now at 1.39 per cent?—A. Not immediately. If there was an immediate increase in the volume of business there would be an immediate increase in our administration costs for the simple reason that our board is operating today to full capacity with the amount of business which has been available. If that business increases very greatly, we would have to expand the number of our employees. Undoubtedly the costs would be higher. I do not think there is very much range between our costs in relation to our investment as between a large volume year and a small volume year. It is indicated by the percentage figures which I gave you, that there is not a great variance. It went from, say, 1 per cent to 1.39 per cent. It is very doubtful to me, as a matter of fact, I would say that increased business would mean an increase in our administration costs.

By Mr. Macdonnell (Greenwood):

Q. Do you really leave it there without any further comment? Do you really say that if your mortgage interest increased, say 50 per cent, that your additional costs of doing business would catch up with it? Surely not.—A. I say that that would happen immediately. It is so hard to foresee what is going to happen. We might have a large year in 1956 and might drop down to a very small year next year. Of course, the added investment will be added income, and the lower volume would result in reduced expense; therefore, your cost of operation in relation to volume would be less for 1957 under those conditions than in 1956; but I do say too that there is not much range between 2 per cent and 1.39 per cent, or 1 per cent, which are the actual experiences we have undergone in 25 years.

Q. I will not pursue that, but I do not find it very convincing because after all a good deal of the overhead would be more or less fixed and would not grow automatically with the increased volume and your additional expense would be at the lower level. I do not wish to pursue that. However, I do wish to pursue one thing. There is a strong feeling, on the part of some of the members of this committee who are closer to this business than am I, of disappointment that the business of the board has not been greater. Dr. Hope expressed it by using the phrase that you have stuck to the cream of the business. I do feel that there is one thing which has not yet been cleared up.

You gave us figures this morning as to the acceptances and rejections with respect to Ontario—they are practically the same incidentally. You gave us figures of the applications which had been voluntarily withdrawn, and then you qualified that to some extent by saying that people had been advised, in some cases, to withdraw. I think you must take it that most of us feel that of the 38 per cent, which you described as voluntary withdrawal and then qualified to some extent—I think you must not be surprised if we feel those were virtually rejections.

Then, a new word appeared this morning. We had been talking about applications and there were references to inquiries. I understood you to say that there would be a certain number of applications to the board which would not have come as a formal application but nevertheless come in the form of an informal letter. I am anxious to know whether this figure of rejections in reality should be added to by an addition of these so-called inquiries which have not been put in the form of a formal application?

I still feel, myself, very uncertain as to the real extent to which this institution is carrying out the purpose for which I think it was formed. I asked you when you were here last time: supposing you were told by those to whom you report that their aim was to greatly increase the amount of these loans and that they felt a great deal more should be done; supposing you were told that \$38 million is not enough and that there ought to be a great deal more, can you say to us just what you would do to increase it? I understood you to say this morning that you were taking some steps—this is getting beyond the line of a question. However, I do wish that you would answer these two points. First of all, let us know with the fullest detail that you can whether there is an addition to these rejects? Whether there is a substantial number of inquiries which would indicate that there would be a further use of the Canadian Farm Loan Board if the conditions were changed? It still seems to me, after all these years of operation, that its operation is small and I was greatly struck by the remark of Dr. Hope, for whom I have a great respect, that he thought you were taking the cream of the business. I am not suggesting that you should take a lot of bad loans, but the implication that you were taking the cream of the business made me wonder whether you were sufficiently regarding this as a service institution.—A. That is a pretty long question. I do not know where to start. However, I tried to jot down the items. First of all, I think you made some reference to the fact that somebody had said that this board took the cream of the business. I think that my only answer to that can be this, that this board loans in every province of Canada and in every part of every province where there is any stable agricultural development, something which has never been undertaken by any private loaning institution before. It would seem to me, under those circumstances, that we are not taking the cream of the business. Is that a satisfactory answer?

Q. No. That does not seem to me to answer the point. You could go into each district and still only take the cream of the business. That only says that you have been far-flung in your operations.—A. I do not know what the cream of the business is. I do know it is our opinion that we take many risks. Beyond that all I can say is that we do loan across Canada and within each province in many areas—in almost every area—and as a result of that I am sure we are not taking the cream of the risks.

Mr. CARRICK: Mr. Chairman, when Dr. Hope commented about that he said what he meant about the cream of the business was that the board did not lend enough money. He rejected the idea that the board was accepting

only blue chip mortgages in rejecting risky mortgages. So, I would think that Mr. Macdonnell's inquiry merely comes down to a question of whether or not the board is lending as much as it can.

By Mr. Macdonnell (Greenwood):

Q. Would it be possible for you to say in how many cases you have sustained a loss out of this total?—A. We have lent over \$100 million and lost over \$716,000. I think that that would enter into the statement about us taking the cream of the business and also the inference that we were not losing enough money.

Q. Were not loaning it?—A. No, were not losing it.

By Mr. Argue:

Q. Who inferred that?—A. It seems to me that we had been criticized in respect to the amount we had lost and that it was always regarded as being a very small amount of money. In other words, we should have lost more money.

Q. Not with the type of business you did. Have you ever loaned more than \$20 an acre on a piece of land in the three prairie provinces?—A. We certainly have.

Q. You have?—A. Certainly.

Q. Could you give me the highest amount you have ever loaned for agricultural purposes based on the productivity of the land?—A. Again, we would have to look it up.

Q. I notice in the figures which you gave me on the Regina land that each loan was about \$20 an acre on the average.—A. What I was really trying to do was answer some questions which Mr. Macdonnell had asked me. If I can get that disposed of, probably you could ask me the other questions.

By Mr. Crestohl:

Q. On the question asked by Mr. Macdonnell, he referred to the fact that this was service that you were rendering. Do you not also regard it as handing trust funds, the money of the people of Canada?—A. I do not think we could be in this business and not have regard for that.

Q. Precisely. Then, would you tell the committee if you were lending your own money, assuming you were the president of a private lending institution, would you be more liberal in lending the money than you are in lending the money of the people of Canada?—A. I doubt it very much; but I think we should bear this in mind too that until 1952 we had never been allowed to loan over 50 per cent on an appraised value or over \$5,000. We have only been operating since 1952 on the higher 60 per cent margin and the \$10,000. We are now in the process, if this bill goes through as it is, of increasing that again to 65 per cent and to \$15,000. In other words, we have increased our percentage loan limits by 30 per cent in three or four years. A loan does not show up as being a good or a bad loan for probably four or five, or more, years. What will happen as a result of the higher loan limit provided by this bill is very difficult to forecast but I do not think that there is a doubt in the world that as a result of that that the risk we are taking and the amount of loans will increase. I do not think that there is any question about it. It has been proven, since 1952, that our loaning has increased as a result of increasing those loan limits. This further increase in loan limits is undoubtedly going to increase our volume of business.

Q. As custodians of the trust fund, so to speak, of the money of the people of Canada, you do exercise the greatest caution in making these loans, do you not?—A. As it is obvious to you, this is a matter of judgment.

Q. If your losses were greater you could be considered as poor administrators of the trust fund?—A. Yes.

The CHAIRMAN: We seem to be getting off on two tangents. I think we should go on with the answers to Mr. Macdonnell's question. That is, if the witness is unconfused enough to carry on.

The WITNESS: You asked about the amount that we were loaning, and that it was not sufficient. Is that one of the suggestions you made?

By Mr. Macdonnell (Greenwood):

Q. I would have liked to see it higher. Incidentally, with respect to Mr. Crestohl's illustration of this being purely on all fours with a business operation loaning trust funds, while you have to operate in a sensible way, I do not accept that view. After all, a business goes out to make money. If by some magic we could just break even it would be ideal from my point of view.

The CHAIRMAN: I do not think that anyone yet has been able to prove what was the intention when the act was passed.

By Mr. Macdonnell (Greenwood):

Q. I admit that I had difficulty in finding it out. I would ask Mr. Chester what he believes is his duty, because I think it is a very important factor. I think it is to expand this with all reasonable moderation.—A. I think that is what we are doing.

By Mr. Fraser (Peterborough):

Q. Expand the agricultural activities of Canada.—A. Again that is what we are doing.

By Mr. Quelch:

Q. Might I ask a supplementary question regarding these inquiries. What is the reaction to the suggestion by the Canadian Federation of Agriculture that the application be signed at the time that the inspector visits the farm? We know that a lot of these application forms are long and that the questions are ambiguous and, as a result, that many mistakes are made in answering them which causes delay. Would it be possible to have two application forms, one in the nature of an inquiry or a very brief application form before an inspector comes to the farm to take the application and then have the long form signed at the time the inspector calls at the farm so that he can have the farmer fill it out. It would save a lot of correspondence and avoid a lot of mistakes. It would also encourage the farmer to fill out these forms instead of saying the hang with it and throwing it in the wastepaper basket. I have had a great deal of complaints about these forms by people saying that they wanted to know the whole pedigree of the family for years back.—A. Our forms are not that bad. We ask for what we think is necessary information.

Q. I think the inspector should point out that some of these questions do not mean what the farmer thinks they mean.—A. I think it would be impossible to operate in that manner. You must realize that it costs us money to send an appraiser to the farm and that it costs the borrower money because he pays part of that cost in his fee. If you visualize an appraiser going to a farm and getting the fee and having the application signed, who is going to decide whether an appraisal should be made or not? If he is in doubt, he will make the appraisal. I think he would be accused in many cases, under those circumstances, of taking the \$10 fee under false pretences because I think the way you would recommend it should be done that the appraiser would be inclined to go ahead with the appraisal which is his business, irrespective

of what the application showed even if he might feel that there was not a possibility of a loan being allowed. Under those conditions, I think we have a further responsibility to our borrowers and applicants not to take that \$10 fee from them irrespective of whether or not they are likely to get a loan. I rather think we would be in a very poor position with our applicants and would be subject to very severe criticism for having taken application fees under such conditions where the people concerned might interpret it as being done under false pretences.

Q. You would not want to put the responsibility on the inspector for suggesting that you not go ahead?—A. No.

By Mr. Carrick:

Q. On that point, at page 9 of the brief of the Canadian Federation of Agriculture, it speaks of there being difficulty and certain complaints by the borrower of the complex application form. Would you say that that is an accurate statement?—A. I think it is usual for a farmer who wants a loan to consult somebody in that village or town, wherever he might be. It might be a bank manager or a lawyer; probably a lawyer more than anybody else, and the lawyer would have no difficulty whatsoever in assisting an applicant to fill out one of our application forms.

By Mr. Quelch:

Q. He would have to pay the lawyer. Would it not be possible to have an application form which does not require the services of a lawyer in order to fill it out?—A. As a matter of fact as we were walking up here—this is just an aside—it was remarked to me that if these people would finish with us we would get into the hands of the printers a new application form which is ready to go. That is no reflection upon the committee at all. However, we have a new application form ready to go to the printers and it will go within a very few days. It is an easier application form to fill out and is a better application form than we have used. Incidentally, the application form which we are using has been used for a number of years and will be changed almost immediately.

By Mr. Benidickson:

Q. Mr. Chairman, I think that Mr. Macdonnell said that he thought that the idea would be for this board, in its results, to break even in so far as profit or loss is concerned. Am I right in thinking that in your last year of reporting that your surplus was in the nature of \$160,000?—A. That is before income tax.

Q. I think in previous sessions you indicated that this surplus was arrived at without taking into account the factor of substantial funds that have been provided the board upon which you are not obliged to pay any interest. I refer to your capital. How much is it?—A. \$2½ million.

Q. \$2½ million upon which you pay no dividends or interest to the government?—A. That is right.

Q. And we have had some criticism about the reserve fund which amounted to something beyond the \$3 million?—A. That is right.

Q. And those funds are available for re-lending at 5 per cent?—A. That is correct. In total they represent approximately \$275,000 income to the board each year.

Q. Those two funds?—A. That is right.

Q. In other words, if you were obliged to pay interest on those two funds you would actually not be in a balanced position; you would be in a deficit position?—A. That is probably close to it.

Q. When Dr. Hope was before us he claimed to have no expert knowledge of it, but he intimated that he thought that if you substantially increased the volume of your lending, that it was likely that your ratio of cost would go down proportionately to the increased lending. Have you any comment to make on that?—A. I think that is really what we were talking about a few minute ago. The opinion of the board is that any substantial increase in business will in turn make an increase in the cost of the administration.

Q. We had an indication today that your staff was not adequate even at the present number. But you feel that your staff is fully employed and that if you had a greater amount of business you would have to increase the personnel?—A. There is no doubt in my mind about that.

Q. With a substantial increase in the amount of lending how would it result in so far as costs are concerned?—A. Well, the actual increase would be in the processing of the loans and the administration of the loans. It costs us well over \$30 to make an appraisal on the average.

Q. And your fee is \$10?—A. We get \$10 as a fee; and when I say \$30, it costs \$30 for an appraisal; and if you add one thousand appraisals to our present volume of business you have increased our costs. They will go up by approximately \$30,000.

Q. I think in your first day's testimony you indicated that your staff, or the number of personnel employed at present is considerably less than the number employed 15 years ago and that your volume in business in 1955 was considerably greater than it was 15 years ago.—A. That is true in the overall picture. However, the total has decreased in staff at head office, as a result of book keeping methods, machinery and machine operations and so on. The processing of loans as far as the branch offices are concerned is at its peak now. I am pretty sure I am correct in making that statement. It is the considered opinion of the officials of the board that we have as many employees processing loans today as we have had at any time in the past.

Q. I think you indicated in your evidence that your cost in relation to the volume of lending was about 1.39 per cent.—A. That is correct.

Q. And of that 1.39 per cent what proportion is attributable to personnel and wages?—A. Well, 75 per cent of our administration costs are employee's wages.

By Mr. Macdonnell (Greenwood):

Q. May I ask a question. Am I correct in my understanding that your board has an income of \$275,000 by reason of not having to pay interest to the government on the advances that it gets. But on the other hand that it pays \$70,000 by way of income tax or thereabouts. Am I correct?—A. \$275,000 is not solely on the capital stock of the government; it includes our reserve fund.

Q. Am I correct in understanding you do get from the federal government—\$275,000 and that part of this income is really a gift from the federal government to you?—A. No, I did not say that.

Q. Well, what did you say?—A. I said this: our capital stock is presently approximately about \$2½ million. Our total reserve fund is approximately \$3½ million. The two added together make \$5½ millions, and that \$5½ million is invested in mortgages given by the board on which we derive 5 per cent interest. Therefore we have \$275,000 of income revenue from that \$5½ million that we have invested.

Q. Part of this represents reserves built up by your earnings?—A. That is right.

Q. And you have got an advance from the consolidated revenue fund?—A. Not an advance; it was a purchase of stock, a sale of our stock.

Q. In any event whatever the technique was, the dominion government is getting no return on an advance made to you and on the other hand you are paying income tax. That seems to me an "Alice in Wonderland" method of financing.—A. Let us put it this way!

Q. That is like paying yourself income tax out of your own money and I must say that so far as the income is from money advanced from the consolidated revenue fund, on which you are paying income tax, I think that is not realistic.

By Mr. Argue:

Q. You are suggesting that there should not be any interest-free capital from the government?

By Mr. Macdonnell (Greenwood):

Q. No. All I suggest is that it does not add up to sensible financing, that they should get an advance from the government and then pay income tax on it. It seems to me to be utterly unreal.—A. Are you suggesting that we should not have any capital?

By Mr. Michener:

Q. Is any return paid to the government on the amount of the subscribed capital?—A. There has not been.

Q. Nothing in the way of interest or dividends on it?—A. No.

Mr. CRESTOHL: I think they are paying dividends on the money with which the government provided them and those dividends are payable in the form of income tax.

By Mr. Richardson:

Q. I wonder if Mr. Chester would tell us what proportion of the remuneration which is paid to the appraisers is paid by way of fixed salary, and what proportion is paid by way of fees?—A. All our permanent appraisers are full time employees and are paid by way of fixed salary. All our part time appraisers are paid by way of fees per diem.

Q. What would be the proportion of the staff of appraisers who are full time, and what would be the proportion which is part time?—A. If I recollect correctly we have 20 full time appraisers, 2 seasonal appraisers, and 36 part time appraisers so we have 58 appraisers altogether, of whom 36 are part time employees.

Q. My second question is one that Mr. Chester may wish to leave to an omnibus answer after he gets all the other questions out of his system. In his memorandum of March 27th, he invited criticism and suggestions from members of this committee. Is it fair to ask him, through you, Mr. Chairman, if he in turn has any specific proposals to pass on, and would it not make for better administration of his work?

The CHAIRMAN: I think you are practically asking Mr. Chester to comment on government policy.

Mr. RICHARDSON: No, it is a little different from that.

Mr. ARGUE: It might be disastrous to that policy!

The CHAIRMAN: The act and the amendments are a manifestation of government policy, and if Mr. Chester has any recommendations to make which would vary the act or vary the policy, you are placing a civil servant in a rather impossible position of you ask him that question.

Mr. RICHARDSON: I would never do that. And Mr. Chester could readily say that it was not convenient for him to answer, and if he should say that, it would satisfy me. I merely asked him that question because he asked us.

Surely a member of the committee has the right to ask a man who knows a lot more about this than I do—of course not so much more than Mr. Argue does—but more than I do!

By Mr. Michener:

Q. I think we should take exception to the chairman's observation because this is really a committee of the legislature which makes the act under which Mr. Chester operates; and if he wants to make some suggestion to the legislature about improving that act, surely this is the proper place to make it. Therefore I would invite an answer to Mr. Richardson's question.—A. In answer to that request, let me say that our board deals with parliament and reports to parliament through our minister; therefore any recommendation I would make in regard to policy or the bill, or the act,—certainly you would get it through my minister, and not by me.

By Mr. Quelch:

Q. Would we be justified in thinking that some of those amendments were based upon recommendations made by your board?—A. You can estimate whatever you wish.

The CHAIRMAN: Mr. Argue has some questions.

By Mr. Argue:

Q. You have already told us a number of times that the cost of administration is about 1.39 per cent. So your cost of money today is in the neighbourhood of $3\frac{1}{2}$ per cent.—A. You are asking me that?

Q. Yes.—A. Our present rate of interest is $3\frac{3}{8}$ per cent.

Q. Is that the rate which you are now paying to the government?—A. That is right.

Q. Is that the every day rate?—A. No, that is not the every day rate, that is the present rate we pay on borrowings that we make as of today.

Q. When was the last time that the rate was increased, this rate that you pay to the government?—A. 24 days ago.

Q. You say 24 days ago; and at that time what was your interest rate?—A. $3\frac{1}{8}$ per cent.

Q. On page 7 you list the interest charges on the initial capital of \$175,000. Would you just explain what the interest charges are? We have been talking for a while about interest free capital. There is some on which you pay interest. What was that initial capital?—A. That was the \$5 million to which you are referring, the initial capital advance when the board was originally set up, and it has never been recalled in any way—it is really an actual loan and it is being disposed of in this bill which is before you. The amendment will dispose of that \$5 million. The rate we pay on it is $3\frac{1}{2}$ per cent but it will be disposed of now. Your bill provides for a financial reorganization.

Q. And there will be no interest charged on that amount?—A. Yes, there will be interest, but it will be in the form of promissory notes to the government instead of capital advances. We will still owe \$5 million but it will be in the form of promissory notes.

Q. Will this reorganization result in any increase in the rate you are paying on any of your money?—A. No, it has no influence on the rate. The rate is set by order in council.

Q. Could you tell me the average rate you are now paying, or which you will be paying on the amount of capital that you are using? You have told me that the rates were changed. What is the cost of your money today for all the money you have?—A. I do not think I have that here; but by referring to our statement you will find that we have \$5 million at $3\frac{1}{2}$ per cent and we

have \$20 million on which we pay 3 per cent; and we have \$7,800,000 on which we pay $3\frac{1}{4}$ per cent; and we have \$1,900,000 on which we pay $3\frac{1}{4}$ per cent. Just average these out and it comes to somewhere between 3 per cent and $3\frac{1}{2}$ per cent.

Q. What is the lowest rate that the board has ever charged on first mortgages?—A. $4\frac{1}{2}$ per cent.

Q. And that $4\frac{1}{2}$ per cent was increased to 5 per cent?—A. In 1952.

Q. There is a feeling in places, and Dr. Hope expressed the opinion, that 5 per cent is too high and that it should be reduced. Certainly I have not heard anyone say that 5 per cent was too low. We are all aware that there has been a general increase in the cost of money and in the cost of your money, and that it had gone up 24 days ago. But the thing which bothers me is this; you made a statement that probably this bill on balance will add to the administrative costs of the board. You said that.—A. No, I do not think I said that.

Q. Yes, you said it. I am not endeavouring to put words into your mouth. But I think you said that an increase in the amount of money that would be lending on any one mortgage would probably increase the risk involved in making mortgages generally.—A. I do not think I said that.

Q. You do not think there is anything in this bill which would increase your costs? I thought you said that an increase in the amount of money you would be making as a result of this bill would increase the risk of the loans generally?—A. No. That has to do with something entirely different from this bill.

Q. That was my impression of what you said and I am quite pleased to get a clarification to the effect that nothing was being done in this bill which would increase any amount of money or increase any percentage that may be made by way of loan, and that neither one will increase the risk of loans that are made.—A. You did not say that; you asked if it would increase our expenses.

Q. If it increased the risks, you said the losses would be greater; and when you suffer a bad loan, that is a cost to the board, is it not? When you write off a bad loan, is it not a cost to the board?—A. I do not call it a cost of the board.

Mr. CRESTOHL: It is a capital loss.

By Mr. Argue:

Q. All right, we will agree that if there is a deficit caused by the risk of the loan to some extent, or that it may increase the amount of the loan, that it won't affect the position of the board, but I cannot see it myself. It seems to me that if you are going to have a lot more losses it will increase the cost of doing business. If it does not, then I am glad to hear it; but there is an increase in the interest rate being charged and therefore there is an increase in the cost, and there is an increase in the cost of salaries, and just as in every industry it must affect this board. Do you feel that it is likely that you can borrow at a 5 per cent interest rate in the foreseeable future, within the next one or two years without any very substantial losses, in other words, will you be able to hold to your 5 per cent interest?—A. All I can say is that we have our 5 per cent interest rate for the next six months from March 31st, because that is the period in which our rate of borrowings from the government extends. We are given a rate for six months, but what will happen six months from now is just as much your guess, which is probably better than mine, but I do not know.

Q. With the new rates which began 24 days ago, and with several changes in salaries, it may be with the increased number of personnel and so on, do you think that the board can work within this 5 per cent margin in the next year?—A. You are talking of this year when you say "the next year"?

Q. In the current fiscal year, yes.—A. I would anticipate that there is no great likelihood of a decrease in the interest rates which we have to pay. We took a look at our present interest rates and our present costs this year, and we think that they are going to be considerably higher than they were in 1955. You must realize that our wages have gone up and a lot of other expenses have been added, and we are going to have more difficulty in maintaining the 5 per cent rate from now on than we had in the past year. I might also say that for the first time in history, the United States Federal Land Banks are paying a higher interest rate for their borrowed funds than we are through our government here.

Q. For fear that a wrong impression may have been created, let me say that I think that the operation you have been able to carry on at a cost of 1.39 per cent is a commendable operation, and I certainly cannot criticize the rate of expenditure at 1.39 per cent for the board, and I certainly appreciate your position when you say with all these things that you have mentioned you are likely to increase and not in fact to decrease, and that it will be difficult to maintain your operations, and to work within 5 per cent. I cannot speak for other members of the committee but it would seem to me that there is a general agreement in this committee, without mentioning everybody, that 5 per cent is as high as the rate should be in any discussion as to future rates, and I would like to see it reduced; but I do hope that the board will be able to maintain the present rate and may not have to increase the present rate.—A. I think I can make this comment on my own, although it is subject to a lot of unforeseeable things; but I do think there is a very little likelihood of our interest rate for 1956 being altered, either upwards or downwards. That is my personal opinion; and as I say, there are many other factors which might change it, so I cannot guarantee it in any way. But that is what it looks like at present. However, three weeks from now it might be entirely different.

By Mr. Quelch:

Q. You figure that an increase from $3\frac{1}{4}$ per cent to $3\frac{3}{4}$ per cent in the cost of funds would not in itself be sufficient to force you to raise your interest rate?—A. We had an interest rate of $3\frac{3}{4}$ per cent a little over a year ago, and it was since reduced. In order to maintain our rate of 5 per cent under the $3\frac{3}{4}$ per cent rate, we had to charge our borrowers one-fifth of one per cent as a processing fee. But since our rate dropped below $3\frac{3}{4}$ per cent it was not necessary to retain that processing fee. So we dropped it, and it is not in effect now. But if the rate goes up to $3\frac{3}{4}$ per cent, it is quite likely that we will have to do something to increase our revenue because of the increase in the cost of money.

By Mr. Philpott:

Q. I want to ask a couple of questions on another line. When Dr. Hope was here he said that the private lending institutions which had formerly occupied a great deal of the field which you now occupy—I think he said that they were almost all withdrawn from that field? Is that in accordance with your observations?—A. I would say that the private mortgage companies have withdrawn from the field to a considerable extent. They have not completely withdrawn, and this varies as to areas. I think I am correct in saying that they have withdrawn in Saskatchewan, but they have not completely withdrawn in Alberta, Manitoba, British Columbia, or Ontario. Are you referring strictly to private mortgage companies?

Q. Private lending institutions.—A. Their investment in 1938 in farms in Canada was \$188 million. In 1952 it had been reduced to \$35 million.

Q. So that then you would not say that there was any great rush of these companies which formerly occupied the field to get the cream of this lending business about which we have heard?—A. I do not know about the cream. I really do not know what they are doing. I know they are lending money in certain restricted areas within provinces as they always have done, and I know that their investments have been reduced by that much.

Q. Am I right, that in a good many parts of Canada it is true that your board is the only board available to give farm loans of this character?—A. I think you would say that Saskatchewan might be the only province. There is a possibility that Prince Edward Island might be another.

By Mr. Benidickson:

Q. And northern Ontario?—A. That is not a province.

By Mr. Philpott:

Q. I am talking about general areas of the country and not specifically provinces. What I am trying to get at is that there are many parts of Canada where your board is in fact the only available institution on this type of farm loan?—A. There is no doubt in the world about that.

Q. And would you say, by and large, that the institution compares favourably or unfavourably with its competitors in the lending field? Are your procedures any more complicated than their procedures for the person who gets the loan?—A. I would say that there would be very little difference.

Q. And as to the time involved in getting the loans, would you say that your procedures compare favourably with the procedures of your competitors in that field?—A. With respect to those with any comparable volume of business I would say yes.

By Mr. Argue:

Q. But there is no other with a comparable volume of business?—A. We are not the only government-sponsored lending agency.

By Mr. Benidickson:

Q. This is the point I was going to pursue, Mr. Chairman. Has Mr. Chester any information for this committee as to the total volume of farm mortgages existing at the present time? We have had evidence that your current mortgages amount to about \$38 million. What percentage is that of the funds available to farmers on the whole for mortgages across Canada?—A. I do not think that there is any authoritative information which tells you the total farm mortgage debt in Canada. I have an estimate made here, but I do not know whether or not we should talk about estimates. Estimates may be accurate or they may not be. The source is the chief economist of the Department of Agriculture. He estimated that the total farm mortgage debt in 1950 was \$383 million. That is 6 years ago, and I am sure that the farm mortgage debt has been on the increase from that time. I have seen estimates made by responsible people that it has been increasing at the rate of about 10 per cent per year. On that basis the present farm mortgage debt might be \$500 million to \$550 million.

By Mr. Charlton:

Q. That was in 1950?—A. That last figure would be as of now; it is strictly an estimate. The figure of \$333 million was as of 1950.

Q. I am suggesting that between 1950 and 1952 there was a lot of that paid off.

By Mr. Michener:

Q. Have you any figures as to the number of farmers who are mortgaged? Is there any way of arriving at these figures? You have loans outstanding to 20,000 borrowers, which covers the whole of Canada, does it not?—A. Yes.

Q. I do not know how much of that would be on the prairies but there are about 300,000 farmers on the prairies alone and I think that there might be some figures to show how many farmers were encumbered in the last census?—A. The census does not ask that question and they do not report on it.

By Mr. Argue:

Q. Mr. Chester said that the mortgage companies were not lending money in Saskatchewan.—A. As far as I know.

Q. Well, I do know that as recently as 3 or 4 years ago the Huron and Erie was making a number of loans. Their policy was that the mortgage loans on the farmland be restricted to certain areas within the province of Saskatchewan. Do you know whether the Huron and Erie since that time has stopped that practice?—A. I do not know. I am certainly glad to hear that there is somebody besides ourselves lending money in Saskatchewan.

Q. I do not know that they are, but I do know that a few years ago they were. I think the area was restricted to not too many, but they were making some. There was another lending institution which has made a great many loans to farmers with land as security and I take it that it probably also made mortgage loans; and that is the credit unions. There are some very large credit unions which have very substantial assets. I know many many farmers have borrowed money from credit unions and have brought their title to the farm to the credit union as security. Whether or not an actual mortgage was processed in individual cases, I do not know. Mr. Bryson, who has had more experience with credit unions that way, says that there have been.

The CHAIRMAN: Is that fairly short-term credit or is it long-term credit?

The WITNESS: It would be short term in the sense of relating it to the practice of the Canadian Farm Loan Board. I would not think that there would be anything over 5 years.

The WITNESS: As I understand credit unions, the loans which they make are mainly short term. I think that you might lodge the title of your farm as security against a personal loan, but I do not think that you will find it is mortgage lending.

Mr. BRYSON: Yes, they do, and in quite large amounts.

The WITNESS: That is news to me.

Mr. QUELCH: It would be a higher rate of interest.

Mr. ARGUE: Probably 6 per cent.

By Mr. Carrick:

Q. Is there one province in the west which does not allow for a mortgagor to enforce a personal covenant in the mortgage?—A. Yes, Saskatchewan.

The CHAIRMAN: In Alberta I believe you have to elect.

By Mr. Carrick:

Q. I was going to ask him if he know about that and what effect that would have on the willingness to lend?—A. I do not think a personal covenant would interfere too much with loaning. Our experience is that we never try to rely on a personal covenant.

By Mr. Argue:

Q. That is good.—A. I do not think that the personal covenant would influence us.

By Mr. Carrick:

Q. Have you had any experience with the rate of interest charged by credit unions?—A. Well, I have because right at the moment I am dealing with an application for a loan, one of the purposes of which is to repay a debt incurred to a credit union, and the rate of interest charged there is 8 per cent.

Q. Eight per cent?—A. That is right.

By Mr. Crestohl:

Q. Does this question which our friend put to you mean that the loan which is made to the farm, and not to the person with the farm, is guaranteed, or is it made to the owner of the farm with the farm hypothecated with the loan as a guarantee? I am talking about a loan in the province of Quebec?—A. I do not know too much about that. We have people in our employ who do. We take a personal covenant on the mortgage and the mortgage is a registrable instrument against the land. That, I think, is the explanation.

Q. Yes.

By Mr. Richardson:

Q. Mr. Chairman, in view of the \$275,000 referred to earlier, does Mr. Chester feel that perhaps the words in the second paragraph where he speaks of the Canadian Farm Loan Board as being self-supporting, are a little bit inaccurate?—A. No, I do not think so. We are self-sustaining, not self-supporting; it is the same thing I suppose. We are the same as any other corporation which has \$2½ million capital stock invested in it and the decision is that we shall not pay a dividend. I think there has been one instance of that, and that was in the case of the big iron magnate who died recently. I think that his policy was that he should not pay out dividends. That has been the practice of the board.

By Mr. Follwell:

Q. Did you follow Sir James Dunn or did he follow you?—A. I do not want to follow him too quickly.

By Mr. Pallett:

Q. This amount of \$275,000 floating around intrigues me. Is not the fact of the matter that you have capital from the government in the amount of \$2,040,000 on which nothing is paid, but the reserve fund is your own money which you have built up from your own earnings and therefore you do not owe interest to anybody on that?

The CHAIRMAN: It is undistributed property.

By Mr. Pallett:

Q. Yes. All you are receiving free is the rate of interest, 3.38 per cent, on \$2 million which is roughly \$70,000, and that is the amount you paid in income tax last year?—A. Yes. Or you might put it this way, that we are getting revenue on \$2½ million at 5 per cent, which is \$125,000.

Q. But you borrow the money at 3½ if you were paying interest on it?—A. That is right.

By Mr. Benidickson:

Q. Mr. Chairman, I referred to the reserve fund simply because it has been criticized as being unduly large. I simply pointed out that if it did not exist, the board would have a profit position quite less than it has, because it is loaning to new borrowers from the reserve fund.

Mr. MICHENER: Mr. Chairman, I think we ought to thank Mr. Chester for his patience.

The CHAIRMAN: This is the last time Mr. Chester will be here unless the committee specifically requests his attendance again, because we shall move on to the bill shortly and if there are any questions I would be glad if members would ask them now; otherwise I shall assume that Mr. Chester has given all the information you require.

Mr. FAIREY: Mr. Chairman, I would like to suggest that if it is in order we pass a vote of thanks to Mr. Chester.

By Mr. Benidickson:

Q. Before he leaves I would like Mr. Chester to explain to us, if he has not done so already, the present opportunities of a borrower to prepay on a mortgage.—A. We will accept prepayment on our mortgages without bonuses or charges after two years. I do not think we deviate from that practice, but I must say I do not think we get many prepayments within the first two years. The mortgagor can repay us in full without any cost to himself after two years. On many occasions a mortgagor, as a result of favourable conditions, has surplus money and if he wants to reduce his debt to the board we accept those prepayments. The usual procedure is that we credit them to the principal of the mortgage thus reducing the amount of the mortgage outstanding and also the number of years for which he has to pay instalments. There are other situations which occur from time to time in which the board has the authority to apply moneys and re-amortize accounts, and I am referring now to difficulties in which a borrower might get himself after he has been a borrower for a little while. We do readjust our accounts; as a matter of fact there was a time when we readjusted a great number of our second mortgage loans and spread them over the whole term of the first mortgage in order to help the borrower repay his indebtedness to us as easily as possible.

I think there was a suggestion made that by right a borrower who prepaid should be able to say that that prepayment is to go towards a certain thing, namely his next instalment or something of that kind. We have the authority. It is just a matter of policy whether we do it or not, and we look at it from the board's point of view as well as from the borrower's point of view when we consider these matters. Does that answer your question?

Q. Partly. It has been suggested that we should encourage payments beyond those called for in the covenants in times of prosperity. Assume that a man had paid more than he was required to do under the terms of the contract and then, during a bad year, he was unable to pay what was called for. Would his prepayment be taken into consideration by your board?—A. Certainly it would. We would do one of two things. We would "carry" the man in arrears without pressing him at all for that payment until his next instalment fell due, or we would consider very carefully any request that we should re-amortize the balance, and probably agree with his wishes. Sometimes we go to this extent: that where we have had a loan for a period of years and it has been reduced but, for various reasons, the borrower, who is a good risk, gets into arrears with his taxes as well as with his instalments, we have paid his taxes for him and added the sum to our loan account and

amortized that as well as arrears and instalments. That, of course, has only been done in particular cases. We would have to examine each case and decide what would be the proper action to take.

Q. The effect of prepayment, that is, payment beyond what is called for in the contract, is that a man relieves himself of an interest liability of five per cent on the amount that he has paid earlier than called for in the contract?

—A. That is correct. He has also reduced the number of instalments which he has to pay.

By Mr. Argue:

Q. Do you see anything different in the practice you have outlined now and the suggestion that Dr. Hope has made? Is there much difference between the two?—A. As I see it—and this is from an administrative point of view—I prefer the present method and I think the farmer or borrower would also prefer the present method. The borrower now has many options which we could agree to and that I think is far better than restricting him to one method. Included in those options is the one which Dr. Hope has in mind so I would think—and again I am speaking from an administrative point of view—that it would be to the borrower's advantage to operate as we are doing now in preference to restricting the application of prepayments to one method.

Q. What proportion of your loans are refinanced at some time or another to extend the period beyond the period in the original mortgage?—A. That of course depends upon the economic conditions at the time. In the thirties and the forties a lot of that was being done. But in recent years, the last ten or fifteen years—they have been exceedingly prosperous years that the farmers of Canada have enjoyed, there has been no necessity for that.

The CHAIRMAN: Gentlemen, I am assuming that there are no further questions. I am sure we would all wish to thank Mr. Chester for his help, and for his having given us information in this matter. It will be valuable in explaining the clauses of the bill, as it is presented to the committee.

I had hoped that we might get on with the bill today, but the hour is now late. I should like to have an expression of opinion from the committee as to whether we should go on with the bill now.

Some hon. MEMBERS: Yes.

Some hon. MEMBERS: No.

Mr. ARGUE: We have had a long day, with two sittings.

Mr. HOLLINGWORTH: Tomorrow is a short day. Probably we will be meeting at 10.00 o'clock until 11.00, and from 3.30 to 5.30.

The CHAIRMAN: I think the next meeting will be on Thursday.

The WITNESS: May I express my thanks to the committee. I have received a great amount of information, and I am sure what I have heard will be very helpful in transacting the affairs of the board. I believe this is the first occasion upon which the board has been before a committee of the House of Commons—other than, of course, at the inception of the Act. I do appreciate the expression of the different points of view; and I am sure that as a result of what has been said, and as a result of the amendments before the committee, the farmers of Canada will really benefit therefrom.

Mr. ARGUE: I move that we adjourn.

The CHAIRMAN: There is a motion for adjournment. We will reconvene on Thursday at 11.00 o'clock and at 3.30.

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Third Session—Twenty-second Parliament

1956

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ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

Bill 84

An Act to amend the Canadian Farm Loan Act

THURSDAY, APRIL 26, 1956

WITNESS:

Mr. F. L. Chester, Commissioner, Canadian Farm Loan Board.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

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|-----------------------------------|-------------------------------|------------------------------------|
| Argue | Fulton | Nickle |
| Ashbourne | Gour (<i>Russell</i>) | Pallett |
| Benidickson | Hanna | Philpott |
| Blackmore | Henderson | Power (<i>Quebec South</i>) |
| Bryson | Hollingworth | Quelch |
| Cameron (<i>Nanaimo</i>) | Huffman | Richardson |
| Carrick | Johnson (<i>Kindersley</i>) | Robichaud |
| Charlton | Low | Rouleau |
| Crestohl | Lusby | St. Laurent (<i>Temiscouata</i>) |
| Deslieries | Macdonnell (<i>Green-</i> | Thatcher |
| Enfield | <i>wood</i>) | Tucker |
| Eudes | MacEachen | Valois |
| Fairey | Macnaughton | Viau |
| Fleming | Matheson | Vincent |
| Follwell | Michener | Weaver |
| Fraser (<i>Peterborough</i>) | Mitchell (<i>London</i>) | White (<i>Waterloo South</i>) |
| Fraser (<i>St. John's East</i>) | Monteith | |

Eric H. Jones,
Clerk of the Committee.

REPORT TO THE HOUSE

FRIDAY, April 27, 1956.

The Standing Committee on Banking and Commerce begs leave to present the following as its

FOURTH REPORT

Your Committee has considered Bill 84, An Act to amend the Canadian Farm Loan Act, and has agreed to report the said bill with one amendment, namely:

Clause 6, sub-clause (2)

Page 2, line 35, delete the word "twenty-five" and substitute therefor "thirty".

A copy of the Minutes of Proceedings and Evidence of the Committee relating to the said bill is appended hereto.

Respectfully submitted.

PHILIPPE VALOIS,
Vice-Chairman.

(Note: The Third Report of the Committee dealt with a Private Bill in respect of which verbatim evidence was not recorded.)

MINUTES OF PROCEEDINGS

THURSDAY, April 26, 1956.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. The Vice-chairman, Mr. Philippe Valois, presided.

Members present: Messrs. Argue, Ashbourne, Benedickson, Blackmore, Bryson, Cameron (*Nanaimo*), Carrick, Charlton, Deslieries, Fairey, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Hanna, Henderson, Hollingworth, Huffman, Johnson (*Kindersley*), Macdonnell (*Greenwood*), Michener, Philpott, Power (*Quebec South*), Quelch, Richardson, Valois, Viau, Weaver and White (*Waterloo South*).

In attendance: Messrs. F. L. Chester, Commissioner; E. O. Bertrand, Member; W. A. Reeve, Secretary; and R. McIntosh, Chief Accountant; all of the Canadian Farm Loan Board.

Mr. Valois thanked the Committee for the honour which they had paid him in electing him their Vice-chairman.

The Committee proceeded to clause by clause consideration of Bill 84, An Act to amend the Canadian Farm Loan Act.

In response to questions, Mr. Chester explained some of the clauses of the Act.

Clauses 1 to 5 were severally adopted.

On clause 6, subclause (1):

Mr. Johnson (*Kindersley*) moved, seconded by Mr. Bryson,

That clause 6, subclause (1), be amended by deleting the word "sixty-five" in line 19 on page 2 and substituting therefor the word "eighty".

Whereupon Mr. Macdonnell (*Greenwood*) moved, seconded by Mr. Fraser (*Peterborough*),

That the amendment be amended by deleting the word "eight" and substituting therefor the word "seventy-five".

The proposed sub-amendment was negatived on the following recorded division:

Yeas: Messrs. Argue, Blackmore, Bryson, Cameron (*Nanaimo*), Charlton, Fraser (*Peterborough*), Johnson (*Kindersley*), Macdonnell (*Greenwood*), Michener, and Quelch—10.

Nays: Messrs. Ashbourne, Benidickson, Carrick, Fairey, Follwell, Fraser (*St. John's East*), Hanna, Henderson, Hollingworth, Philpott, Richardson, Viau, Weaver and White (*Waterloo South*)—14.

The proposed amendment was negatived on the following recorded division:

Yeas: Messrs. Argue, Blackmore, Bryson, Cameron (*Nanaimo*), Charlton, Fraser (*Peterborough*), Johnson (*Kindersley*), Macdonnell (*Greenwood*), Michener and Quelch—10.

Nays: Messrs. Ashbourne, Benidickson, Carrick, Deslieries, Fairey, Follwell, Fraser (*St. John's East*), Hanna, Henderson, Hollingworth, Huffman, Philpott, Power (*Quebec South*), Richardson, Viau, Weaver and White (*Waterloo South*)—17.

Mr. Macdonnell (*Greenwood*) then moved, seconded by Mr. Charlton, That clause 6, subclause (1), be amended by deleting the word "fifteen" in line 30 on page 2 and substituting therefor "twenty".

The proposed amendment was negatived: *Yeas*, 11; *Nays*, 16.

Subclause (1) of clause 6 was adopted.

On clause 6, subclause (2):

Mr. Macdonnell (*Greenwood*) moved, seconded by Mr. Charlton,

That subclause (2) of clause 6 be amended by deleting the word "twenty-five" in line 35 of page 2 and substituting therefor the word "thirty".

Whereupon Mr. Bryson moved, seconded by Mr. Cameron (*Nanaimo*),

That the amendment be amended by deleting the word "thirty" and substituting the word "forty" therefor.

The proposed sub-amendment was negatived on the following recorded division:

Yeas: Messrs. Argue, Blackmore, Bryson, Cameron (*Nanaimo*), Johnson (*Kindersley*) and Quelch—6.

Nays: Messrs. Ashbourne, Benidickson, Charlton, Deslieries, Fairey, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Gour (*Russell*), Henderson, Hollingworth, Huffman, Macdonnell (*Greenwood*), Michener, Philpott, Power (*Quebec South*), Richardson, Viau, Weaver and White (*Waterloo South*)—21.

The proposed amendment was adopted unanimously on the following recorded vote.

Yeas: Messrs. Argue, Ashbourne, Benidickson, Blackmore, Bryson, Cameron (*Nanaimo*), Charlton, Deslieries, Fairey, Fleming Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Hanna, Henderson, Hollingworth, Huffman, Johnson (*Kindersley*), Macdonnell (*Greenwood*), Michener, Philpott, Quelch, Richardson, Viau, Weaver and White (*Waterloo South*)—26.

Nays:—0.

Subclause (2) of clause 6 was adopted as amended.

Clause 6, as amended, was adopted.

Subclause (1) of clause 7 was adopted.

It was agreed that subclause (2) of clause 7 stand until later this day.

Clauses 8 to 11 inclusive were severally adopted.

At 12.45 o'clock p.m., the Committee adjourned until 3.30 o'clock p.m. this day.

AFTERNOON SITTING

At 3.30 o'clock p.m., the Committee resumed its clause by clause consideration of Bill 84, the Vice-chairman, Mr. Philippe Valois, presiding.

Members present: Messrs. Argue, Ashbourne, Benidickson, Deslieries, Fairey, Fleming Follwell, Fraser (*Peterborough*), Henderson, Johnson (*Kindersley*), Macdonnell (*Greenwood*), Michener, Philpott, Power (*Quebec South*), Quelch, Richardson, Valois, Viau, Weaver and White (*Waterloo South*).

In attendance: The same as at the morning sitting.

The Committee reverted to subclause (2) of clause 7, and adopted it.

Clause 7 was adopted.

The preamble was adopted.

On the title:

Mr. Argue moved, seconded by Mr. Johnson (*Kindersley*),

That the Committee recommend to the House that the government give consideration to the advisability of paying to the Board, from time to time, out of the Consolidated Revenue Fund, sums equal to the administrative costs of the Board.

The motion was negatived on the following recorded division:

Yeas: Messrs. Argue, Johnson (*Kindersley*) and Quelch—3.

Nays: Messrs. Ashbourne, Benidickson, Deslieres, Fairey, Follwell, Fraser (*Peterborough*), Henderson, Macdonnell (*Greenwood*), Michener, Philpott, Power (*Quebec South*), Richardson, Viau, Weaver and White (*Waterloo South*)—15.

The title was adopted.

The bill was adopted as amended.

Ordered,—That the Chairman report Bill 84 to the House as amended.

Mr. Chester gave the Committee answers to certain questions which had previously been asked of him; one answer, concerning inspectors of the Canadian Farm Loan Board, was ordered to be printed as an appendix to this day's proceedings of the Committee.

At 3.55 o'clock p.m., the Committee adjourned to the call of the Chair.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

THURSDAY, April 26, 1956,
11.00 A.M.

The VICE-CHAIRMAN: Well, gentlemen, I think we have a quorum. Let us proceed. We will begin with clause one.

On clause 1—Repeal.

Mr. MACDONNELL (*Greenwood*): May we make one or two general observations at this stage? If so I would like to move, when it comes to the proper point, that the 25 year period be extended to 30 years.

The VICE-CHAIRMAN: I do not think the hon. member is in order. We are going to cover this bill clause by clause. If the hon. member has any amendments which he proposes to make to any particular clause, there will be time for that.

An Hon. MEMBER: I did not hear.

Mr. MACDONNELL (*Greenwood*): Apparently I was out of order. I was seeking to make one or two general observations, and the only one I succeeded in making was that I was proposing to move, at the proper point, the extension of the 25 year period to 30 years. But the chairman told me we must take it clause by clause.

Mr. BENIDICKSON: When we come to that, I would second the motion.

Mr. MACDONNELL (*Greenwood*): But there is no clause here dealing with that—

Several Hon. MEMBERS: Yes. Page 2, clause 6, line 35.

Mr. HOLLINGWORTH: Let us take it clause by clause, Mr. Chairman.
Clause agreed to.

The VICE-CHAIRMAN: Shall clause 2 repeal, carry?

Clause agreed to.

On clause three—Board is agent of Her Majesty.

Mr. MACDONNELL (*Greenwood*): On clause 3, may we have a word of explanation of the reason for which subsection (5) of section 3 of the act as it stood was repealed?

Mr. F. L. Chester, Commissioner, Canadian Farm Loan Board, called.

The WITNESS: This is the standard section which is now used in all acts affecting crown corporations.

Clause agreed to.

The VICE-CHAIRMAN: Shall clause 4—Relettering, carry?

Clause agreed to.

On clause 5.

The VICE-CHAIRMAN: Shall subclause (1) carry?

By Mr. Macdonnell (Greenwood):

Q. I want to ask a question with regard to clause 5. This, apparently, is a rearranging of the capitalization to some extent?—A. That is right.

Q. With regard to clause 5, could we have an explanation as to just how this change will alter the balance sheet? At the present the balance sheet shows liabilities, capital, bonds issued and so on; then, when you come to capital, it shows the advances under the Canadian Farm Loan Act and then it shows capital stock under the act, \$2,240,301. My understanding is that it is this section which will be altered by the new arrangement as to capital.—A. The present capital is \$2,240,301 and it will now be \$3 million; it will be a set figure which will not vary. It will be a set capital and the shares will be \$100 shares, from now on, in place of \$1 shares as previously.

Q. And the balance sheet will be adjusted accordingly.—A. As soon as the bill passes through parliament, if it does so in its present form, the result will be that the Minister of Finance will purchase from the board capital stock to the amount of \$3 million. We will retire the \$2,240,301 worth of stock. In other words, the board will have an additional sum invested in it by the government for capital purposes of \$759,699.

By Mr. Fraser (Peterborough):

Q. When that capital is increased, you come to the proposed section 6 (2) which states: "The total principal amount outstanding of loans made by the Minister to the Board shall not at any time exceed twenty times the par value of the outstanding capital stock of the Board." Does that mean it may not exceed \$60 million?—A. That is correct. Our borrowings from the Minister of Finance under this new bill will be limited to \$60 million. That means, in effect, that when we approach that volume of outstanding principal we shall have to go to parliament for an amendment to our act in order to enable us to increase either our capital or our borrowing ratio. Presumably it will be for an increase in our capital, and our ratio would apply to the increased amount of capital, so that the increased amount of allowable borrowing would be 20 times whatever the capital was set at at that time.

Q. Supposing you reached that \$60 million point—and there is every possibility this might be the case on account of the increased cost of farm equipment, and everything else—is \$60 million enough? Supposing you reach the \$60 million dollar point, you would be confronted with a delay of perhaps 2 or 3 months before you could make any more loans?—A. I think that in practice the board would anticipate the need for additional borrowing powers considerably ahead of time in order to take good care of that eventuality.

By Mr. Quelch:

Q. In what way?—A. By requesting through our minister that parliament amend our act to provide us with an additional amount of capital.

Q. In the meantime you would be held up until you could get an amendment through?—A. I believe we would anticipate that by at least a year.

By Mr. Fraser (Peterborough):

Q. You have bonds outstanding. Could you borrow on them?—A. No, this bill eliminates the use of bonds entirely.

Q. Why is it doing that?—A. They have never been used; we have never borrowed on bonds, except from the Minister of Finance. The purpose of bonds was originally that we might borrow from the public. The board has never in fact borrowed from the public but always from the Minister of Finance. In 1952 the act was amended to bring in a simpler form

of borrowing from the Minister of Finance by way of promissory notes, which is what we have been doing since then. We do not use bonds at all now, and we do not anticipate that we shall ever use bonds, or sell them to the public.

Q. Have you the power to borrow from the public at all now?—A. At the present time we have power to borrow from the public through bonds which are guaranteed by the government.

Q. Will you retain that power if this bill is passed?—A. No, that will be eliminated entirely.

Q. As soon as this is passed?—A. All our borrowing from now on, according to this bill, will be by way of simple promissory notes from the Minister of Finance.

Q. That comes out of consolidated revenue?—A. That is correct.

Q. Why was it that your right to borrow from the public was abandoned?—A. It has never been used and there is no intention of using it in the foreseeable future. This really represents a simplification of our financial structure and this was one of the matters which it was decided should be simplified. Borrowing now is done by way of 15-year promissory notes in the amount of \$100,000 lots from the Minister of Finance.

By Mr. Quelch:

Q. At the present time the farm debt is increasing, and I understand the present amount of indebtedness under this act is \$40 million. What do you anticipate the increase will be if things continue as they are? —A. It is difficult to be accurate on this, but we do not anticipate any need to go to parliament, on the basis of recent experience, within three years. But we think it would not go over three years.

Q. Then you might need an increase in the amount of capital?—A. We would assume it would be done in that way, by an increase in capital.

By Mr. Fraser (Peterborough):

Q. In your balance sheets here I see "first mortgage loans—addition." This is extremely small, but how do you carry it on?—A. That is being taken care of later on in the bill. Perhaps we could deal with it when we come to the particular clause.

By Mr. Richardson:

Q. I see that according to the balance sheet there are about \$20 million worth of outstanding bonds. What would happen to them?—A. They are discharged and in their place promissory notes are given.

Q. Is there a reference to that in the bill?—A. Yes, it is in the bill. I think you will find it on page 3 of the bill.

Subclause (1) of clause 5 agreed to.

The VICE-CHAIRMAN: Shall subclauses 2 and 3 carry?

Agreed.

On clause 6 subclause (1)—R.S. c.309, s. 6.

Mr. JOHNSON (Kindersley): With subclause (1) we arrive at a subject which has taken up a large part of the discussion of this committee with regard to the proposals which have been made in connection with farm loans. It seems to be generally agreed that the work of the board has been handicapped because of the relatively low appraisals that have been made and the fact that they are limited to 65 per cent of the actual value of the land.

The fact that this is the case has limited the loans to certain areas where the cost of land is high, and that point was certainly recognized by the Canadian Federation of Agriculture in their brief on the whole subject of farm credit.

In that regard, Mr. Chairman, I move: That the word "sixty five" in line 19 on page 2 of the bill be deleted and the word "eighty" be substituted therefor. This amendment would bring us into very close accord with what the Canadian Federation of Agriculture has sought in its recommendation. I think that as a committee we expressed our indebtedness to the Canadian Federation of Agriculture for the study they had made of this matter, and I believe it is only right we should give some consideration to the opinions which they expressed by adopting this amendment.

Mr. QUELCH: If it had been the practice to appraise farms at anywhere near their real value, I would think the 65 per cent might have been sufficient, but we know that in the past the appraisals have been low. There is no reason to believe that the appraisals will change very much in the future; and in those circumstances I think the recommendation of the Canadian Federation of Agriculture, that the appraisals should be on the basis of 80 per cent instead of 65 per cent, is a very reasonable one and I will support the amendment.

The VICE-CHAIRMAN: Like all chairmen I am, of course, to a certain extent, in the hands of the committee, but I would like to ask a question at this point, and it is this: do you not think that this change from 65 per cent to 80 per cent, as being the limit to which loans may be made in relation to the appraisal value, may mean that, if we are not actually spending money, we are assuming bigger money risks; and, if that is so, do you think that it is within the power of this committee to make such an amendment? I would like to hear your comments about this aspect.

Mr. JOHNSON (*Kindersley*): I have given that point some consideration, Mr. Chairman, and I believe that the percentage of the appraised value on which a loan is made does not determine the expenditure of the Canadian Farm Loan Board. It might mean that a loan, if it were made on the basis of 80 per cent of the appraised value, would be larger but it would not necessarily follow that the sum total of the loans would be larger. It would simply mean that the loans will be more effective in so far as we are appeasing the demand, and on this account I do not think it is an infringement of the rule which governs us in this regard.

Mr. MACDONNELL (*Greenwood*): On our part, Mr. Chairman, we are sympathetic to the idea of the increase, but we feel the amount of the valuation should be considered on its own merits, and that we should not go to extreme figures merely because we fear the valuations are going to be too low. It seems to me that valuations are one thing and percentages are another. I would have thought that a recommendation of something less than 80 per cent say, 75 per cent, would be sufficient at this time, and I would like to move an amendment, that the 65 per cent be changed to 75 per cent.

Mr. ARGUE: I do not think, Mr. Chairman, that that is a valid amendment since you have already before you an amendment making the figure 80 per cent.

Mr. MACDONNELL (*Greenwood*): This would be an amendment to the amendment.

Mr. QUELCH: Mr. Chairman, Mr. Macdonnell suggested that you should separate the two on a percentage basis. Actually, you cannot separate those two, because if you have in mind the fact that the general practice is to make a very low appraisal of only about 80 per cent of the real value of the land, and then make a loan up to 65 per cent of the value, then it is 65 per cent of 80, or, in the case of the amendment to make it 75 per cent, it would still only be 60 per cent of the actual value of the place.

Mr. CHARLTON: I never suggested that.

Mr. QUELCH: He suggested reducing it from 80 to 75 per cent which reduces the amount of the loan.

Mr. CHARLTON: Actually the federation did not ask for a straight 80 per cent. I think probably they would be quite satisfied if the percentage was raised from 65 to 75, generally speaking. They have asked for an increase on the lower loans to 80 per cent; on the higher loans they were satisfied that the percentage be left at 60, as presented on page 8 of their brief. So, we are trying to get in between the two in the general increase from 65 to 75 per cent, which I think would be acceptable if the appraisals were a little more in line with the actual value of the farms.

Mr. JOHNSON (*Kindersley*): That motion by Mr. Macdonnell is quite acceptable to me and I also appreciate the view which Mr. Charlton has just made clear that the federation did suggest a gradation, but asked that the loan be \$20,000 rather than \$15,000. I would support that. The 80 per cent, would, I think, compensate for the very conservative policy of appraisals which they have been following.

Mr. CARRICK: The minister apparently looked into this matter and decided that it would be wise to recommend that the board be authorized to lend to 65 per cent of the appraised value instead of 60 per cent at the present time.

I do not recall any evidence in this committee which would justify making it 80 per cent of the appraised value. On the contrary, we know the standard practice of companies lending on residential and other industrial properties is to lend up to 60 per cent only. This amendment puts it 5 per cent above the standard practice.

Mr. CHARLTON: I think it should be obvious to anybody, because the government has brought forward this increase from 60 per cent to 65 per cent, that they see the need. In view of all the evidence given to us here, it is very evident that the farmers are not being given enough of a loan in relation to the increased value of farms today. What we are saying is that the government has suggested an increase to 65 per cent, and we do not feel that it is enough in view of the evidence given here. We think that 75 per cent would be quite reasonable. I do not think that farm loans can be compared to industrial loans in any way. It would be unfair to suggest that they could be. This is supposed to be a service organization to farmers and I think that we are quite reasonable in asking for 75 per cent.

Mr. CARRICK: As suggested, our aim is to increase the total amount loaned. I do not think it sound to do that by decreasing the security of the loans. That is what Mr. Charlton is asking.

Mr. CHARLTON: No. The farm values have increased more than 10 per cent.

Mr. CARRICK: But surely if you lend to 75 per cent of the appraised value instead of only to 65 per cent of the appraised value you will decrease the security on which the loan is based.

Mr. WEAVER: The act here says here "actual value" not appraised value.

Mr. CAMERON (*Nanaimo*): We were never able to get a definition of actual value.

Mr. ARGUE: I do not think the statement by Mr. Carrick, that the amount of money that is now being made available on loans generally has not been criticized, is correct.

Mr. CARRICK: I did not say that.

Mr. ARGUE: You were suggesting that the appraised value and the current rate have not been criticized. I do not think that is correct. Every witness before this committee and every member of parliament who spoke in the

house on the government side made this statement; he criticized the appraised value, or the percentage of appraised value, and said that farmers were unable on a given piece of land to get a sufficiently large mortgage. They were saying that either there should be an increase in the appraised value, or in the percentage of appraised value, or in deciding what the loan should be that the board should be more generous in its attitude, and that steps should be taken to increase the amount of money that a farmer could obtain. I think that the suggestion that has been made is eminently fair. I do not think that there is a great correlation, if any, between the amount of money that is loaned, whether it be 65 or 80 per cent, and the amounts of losses which may be experienced on given loans. There are so many other factors that there is no reason to believe that just because you give a loan at 80 per cent of an appraised value you may have more losses at 65 per cent. A larger loan can be made without any substantial increase in the risk which the Canadian Farm Loan Board may be taking. The appraised values have been so conservative that I think the motion which has been suggested should receive support from members of this committee, and I think it has, up to this moment, received general approval.

Mr. HENDERSON: It is impressed upon me, and I am sure upon Mr. Chester, that this committee has brought to his attention that the appraisals of these farms, subject to the farm loan mortgage, are generally speaking going up. I think we accomplished some good results. I am very pleased to see this increase from 60 to 65 per cent, but I do not think that the committee should be led astray by putting it on the same basis as the appraised city property or new property by loaning companies. We all know that if we got it up too high there might be some more effort on the part of an appraiser to take into consideration the depreciation on some of the farm buildings. It is altogether a different situation to the situation with regard to a new house where we do take depreciation in some cases to 75 per cent and 90 per cent. In farm buildings if they took depreciation into account as in city or industrial buildings, the appraisal would be much lower.

Mr. MACDONNELL (*Greenwood*): Mr. Chairman, I would like to point out two things. It is quite true that not so many years ago loans were usually made only on a 50 per cent ratio; then they were raised to 60 per cent. I would remind you that under the housing act it has been raised very considerably above that. You will say: "Oh, well, there is a government guarantee there", but with respect to that it might be said that this is a government measure and it is, so to speak, like the government guaranteeing itself here. Therefore, I would think there is an argument for going beyond the 65 per cent. I was pleased to hear one or two voices across the room expressing approval of 75 per cent. It is pretty hard to prove what is the right figure. My own thought is, especially having regard to the statement made by Mr. Charlton as to the attitude of the Canadian Federation of Agriculture, that 75 per cent might be a useful compromise.

Mr. CAMERON (*Nanaimo*): Mr. Chairman, I was under the impression that everyone in this committee had reached the conclusion that the operations of the Canadian Farm Loan Board have been too restricted. I do not think that there is much doubt about that. We were all of that opinion, and felt that certain steps should be taken to provide more assistance to the agricultural economy. We have indisputable evidence that the operations of the Canadian Farm Loan Board have been restricted, since Mr. Chester told us that 45.6 per cent of those applications classified as rejects had been rejected because of too low an appraised value. As was pointed out from time to time that is a misleading figure; actually something like 76 per cent of those actually rejected by the board are rejected because the applicant did not have sufficient security.

We also had quite plain and unmistakable evidence, in answer to questions asked by Mr. Argue, of the fantastic discrepancies between actual values and appraised value for the purposes of a loan under the Canadian Farm Loan Board. The same thing is true in my own province where, in the Okanagan valley, no account is taken of the fruit trees in the appraised value by the Canadian Farm Loan Board for fruit-growing land.

The WITNESS: That is not correct.

Mr. CAMERON (*Nanaimo*): The information which I get from there is to that effect.

The WITNESS: It is not correct.

Mr. CAMERON (*Nanaimo*): I would suggest that you make more inquiries as to what your people are actually doing there.

The WITNESS: I know what they are doing.

Mr. CAMERON (*Nanaimo*): The fact remains that we have had this evidence that appraisals are fantastically out of line with actual values. What the reason is for these fantastic discrepancies, I do not know. What is plain is that these appraised values and the loans to be granted on them are curtailing the operations of the board. There is no effective way in which this committee or the House of Commons can direct the Canadian Farm Loan Board to make appraisals on a more generous basis. What we can do is suggest by this amendment that they increase the percentage of appraised value upon which loans are to be granted. The minister looked at it equally so because it is raised by 5 per cent; but I do not think that we need necessarily assume that the minister's views are to be accepted holus-bolus. We do not always accept Mr. Carrick's views on his infallibility. But I do believe that perhaps the 75 per cent, rather than 80 per cent as proposed by Mr. Johnson, might be more in line with what the Canadian Federation of Agriculture was asking for. I am prepared to support either of them. I do suggest that we have had plenty of evidence here as to the necessity of widening the scope of these loans.

Mr. BRYSON: It is a little difficult for me to understand why Mr. Macdonnell should be so squeamish about the 80 per cent. Neither can I go along with Mr. Henderson in thinking that the increase from 60 to 65 per cent is going to make for a larger loan. I think that they have actually cut the amount of money that can be loaned, because on a first mortgage you could formerly borrow up to 60 per cent, and while they have raised that now to 65 per cent they have discontinued completely the second mortgage which amounted to \$2,000. If you take 5 per cent, which has been the increase on \$12,000, the maximum on the first mortgage, that only amounts to \$600 and actually they are \$1,400 short under this new act of what they could borrow under the former act. The amount of money has actually been cut instead of increased even though the limit is increased to 65 per cent.

The VICE-CHAIRMAN: The question is on the sub-amendment to the amendment, moved by Mr. Macdonnell, seconded by Mr. Fraser, that the amendment should be amended by deleting the word "eighty" and substituting the word "seventy-five".

All those in favour please signify.

Yeas, 10; nays, 13.

The VICE-CHAIRMAN: I declare the sub-amendment lost.

Are you ready for the question on the amendment?

Mr. JOHNSON (*Kindersley*): Could we have a recorded vote by names on that, Mr. Chairman?

The VICE-CHAIRMAN: If the committee wishes it.

Mr. BLACKMORE: Yes, let us have the names.

The VICE-CHAIRMAN: Will you say yes or no to the recorded vote.

Yeas, 10; nays, 14.

The VICE-CHAIRMAN: I declare the sub-amendment lost. Shall I put the question on the amendment: that the word "sixty-five" in line 19 on page 2 of the bill be deleted and the word "eighty" be substituted therefor.

Those in favour?

Mr. ARGUE: That was the recorded vote.

The VICE-CHAIRMAN: The recorded vote was on the sub-amendment.

Some Hon. MEMBERS: No, no.

The VICE-CHAIRMAN: The vote which was taken was on the sub-amendment of Mr. Macdonnell.

Some Hon. MEMBERS: No, no.

Mr. CAMERON (*Nanaimo*): You had put the amendment, Mr. Chairman, when Mr. Johnson asked for a recorded vote.

I suggest that we ask the reporter to tell us.

Mr. HANNA: I submit that that is out of order. I do not think that the reporter should be asked.

Mr. MACDONNELL (*Greenwood*): We voted on my sub-amendment.

Mr. CAMERON (*Nanaimo*): Then the vote was put on the amendment and the recorded vote was asked.

Mr. FAIREY: It is the same thing.

Mr. ARGUE: We have finished both, but if you wish another vote we will take it.

The VICE-CHAIRMAN: The first time, I called the vote on the sub-amendment of Mr. Macdonnell, then afterwards there was a request to have the vote recorded and that is what we have had the vote on. Now I will put the question on the amendment: that the word "sixty-five" in line 19 on page 2 of the bill be deleted and the word "eighty" be substituted therefor.

Mr. JOHNSON (*Kindersley*): We are now at the stage where I asked for a recorded vote.

The VICE-CHAIRMAN: Will those in favour please raise their hands?

Mr. ARGUE: Call the yeas and nays.

The VICE-CHAIRMAN: I will read the amendment again: "that the word 'sixty-five' in line 19 on page 2 of the bill be deleted and the word 'eighty' be substituted therefor".

Yeas 10, nays 15.

The VICE-CHAIRMAN: I declare the amendment lost.

Mr. JOHNSON (*Kindersley*): This was the stage where I asked for a recorded vote. I do not know why we have voted twice on the same measure.

The VICE-CHAIRMAN: We will not go into that again. I think that everything was clear.

Mr. JOHNSON (*Kindersley*): Then would you please make it a recorded vote by names, Mr. Chairman.

The VICE-CHAIRMAN: Again I will have to ask if it is the wish of the committee.

Mr. ARGUE: I think that raises a point of order—and I am not speaking now as a member of the party with which I am affiliated, but I am just speaking from personal experience. It has been my experience in committees and in the house that any member of any committee of the house has the right to

ask for a recorded vote by names in the same way as the members in the house have a right to a recorded vote by names. It is my experience that when any members have asked for a recorded vote by names the vote has been so taken.

Mr. QUELCH: I think that the member for Assiniboia is perfectly right in that. On all the occasions in which I have served on committees, when any member requests a recorded vote, that recorded vote is taken. Now we are in the position of a committee voting against a recorded vote being taken. I do not think the committee has the right to refuse any member who requests that a recorded vote be taken.

Mr. CARRICK: I suggest that, in view of the fact that there was some misapprehension in the minds of members of the committee with regard to exactly what the vote was about, it would be a good thing to allow a recorded vote as Mr. Argue suggests.

The VICE-CHAIRMAN: As far as I am concerned I would say that at the time the recorded vote was asked for I had not read the question. The question on the amendment had not been put, so the vote which was taken afterwards could not have been a vote on the amendment. I would like to hear your comments about that; from what I know a recorded vote may be requested by any member of the committee, but such a request may be turned down by the committee if a vote has already been taken on the question by a show of hands and the motion has been defeated. When that happens there is no recorded vote. That is my understanding, but if anybody else would care to comment before I give my ruling I would be glad to listen.

Mr. CAMERON (*Nanaimo*): Certainly, Mr. Chairman, during all the long sittings of the banking and commerce committee two years ago on the Banking Act there was no question about it. If any member wished to have a recorded vote it was granted. The same was true last year when I sat on the estimates committee. It only took one member to ask for a recorded vote and there was never any question whatever of the committee having the power to refuse such a request.

The VICE-CHAIRMAN: That does not answer the point I raised. It may be true that your experience has been that whenever a recorded vote was requested such a vote was taken, there being no objection, but that does not establish that, according to the rules, if there is opposition to the granting of a recorded vote the committee has no right to refuse it. I think it has.

Mr. RICHARDSON: I think that there is general agreement now that we should have a recorded vote.

Mr. CAMERON (*Nanaimo*): This whole procedure has now been called into question by the chairman, and I suggest it would be very strange indeed if the proceedings which govern this committee were to be so largely different from the proceedings which govern the House of Commons. Suppose we were to follow the chairman's line of argument—suppose five members of the House of Commons rose and called for a vote and the rest of the House of Commons said: "No, we do not want it." There would be no recorded vote, and that would be the sort of situation the chairman is suggesting in this committee.

The VICE-CHAIRMAN: The situation is that a vote has been taken not to allow a recorded vote. Do I understand that the committee now agrees to have a recorded vote?

Hon. MEMBERS: Yes.

The VICE-CHAIRMAN: That is all right, then.

The question is on the amendment, and so that nobody should be in doubt I will read it again:

Moved by Mr. Johnson and seconded by Mr. Bryce that the word "sixty-five" in line 19 on page 2 of the bill be deleted and the word "eighty" substituted for it.

On the division the amendment was defeated by 17 votes to 10.

Mr. MACDONNELL (*Greenwood*): Mr. Chairman, on section (ii) in clause 6 (1), I move that the word "fifteen" in line 30 on page 2 be struck out and the word "twenty" be substituted.

The VICE-CHAIRMAN: We are not ready for that. I must beg the indulgence of the committee; I have to call now clause 6 (1) subsection (i).

On clause 6 (1) subsection (i):

Mr. WEAVER: On a previous occasion I have mentioned what a fine brief the Canadian Federation of Agriculture had submitted to us, and I also commented that I was particularly impressed by their recommendation that the length of time of the loan should be increased—

The VICE-CHAIRMAN: We have not reached that yet.

Mr. WEAVER: Did you not call subsection (ii)?

The VICE-CHAIRMAN: If I did it was my mistake. We have first to deal with subsection (i) in clause 6 (1).

Subsection (i) agreed to.

Mr. WEAVER: I wish to move, seconded by Mr. Huffman that subclause (2) of clause 6 be amended by deleting the word—

Some hon. MEMBERS: We have not come to that yet.

The VICE-CHAIRMAN: Let me call the subsection, please. Subsection (ii) in clause 6 (1).

Mr. MACDONNELL (*Greenwood*): I would like to move Mr. Chairman, that the word "fifteen" be struck out and the word "twenty" be substituted.

Mr. CHARLTON: I will second that.

Mr. MACDONNELL (*Greenwood*): I would just say a word with regard to that figure. It seems to me that values have been going up so rapidly that an arbitrary limit of this kind is quite unrealistic. After all, this is not a compulsory measure; it does not mean they have got to lend \$20,000. It simply extends the discretion of the board. We have a good deal of evidence before us which indicates that the board has been sufficiently cautious, and that it has not been too expansive in its ideas; and I see no reason why, in the face of greatly increased values, the limit of \$15,000 need be retained. That is my reason for moving this amendment.

The VICE-CHAIRMAN: Are you ready for the motion?

Moved by Mr. Macdonnell, seconded by Mr. Quelch, that the word "fifteen" in subsection (ii) of clause 6(1)(a) be struck out and the word "twenty" substituted.

The proposed amendment was defeated by 11 votes to 16.

The VICE-CHAIRMAN: Shall clause 6, subclause (1) carry?

Mr. MACDONNELL (*Greenwood*): As I indicated earlier in the meeting—

The VICE-CHAIRMAN: Let us try to keep the record as clear as possible. Right now we are dealing with clause 6, subclause (1).

Subclause (1) agreed to.

Mr. HENDERSON: I want to ask, Mr. Chairman, why they took the word "collateral" out?

An Hon. MEMBER: I cannot hear.

The VICE-CHAIRMAN: I quite agree with you. If you do not care too much about giving a break to the chairman, there is one fellow you have to give a break to, and he is the reporter. I would like him to hear what is said.

By Mr. Henderson:

Q. I was asking if Mr. Chester could tell us why they took the word "collateral" out of section 6(a), subsection (ii) of the Act. I notice that in the old section it had "additional and collateral security".—A. The reason is that the word "collateral" was not considered necessary in the opinion of the Department of Justice.

Clause 6(1) agreed to.

By the Vice-Chairman:

On clause 6, subclause (2)—Repayment of loans.

Mr. MACDONNELL (*Greenwood*): You may remember, Mr. Chairman, that at the outset of the meeting I sought to obtain a prescriptive right in this clause by announcing that I was going to move an amendment.

The VICE-CHAIRMAN: If Mr. Macdonnell will allow me to say so, if he figures he has acquired a prescriptive right because he called on me at the beginning of the meeting, I can say there was somebody else ahead of him.

Mr. MACDONNELL (*Greenwood*): I submit with great deference, Mr. Chairman—

On a point of order, Mr. Chairman. My point of order is that surely we do not have to recognize any communication which takes place before the meeting begins. My communication was, I submit with deference, the first communication which was made during the meeting.

Hon. MEMBERS: Order.

Mr. MACDONNELL (*Greenwood*): I would now like to move that subclause (2) be amended by deleting the word "twenty-five" and substituting—

Mr. PHILPOTT: On a point of order, Mr. Chairman.

The VICE-CHAIRMAN: Yes, I will hear you on a point of order, and then I shall have something to say.

Mr. PHILPOTT: Nothing which Mr. Macdonnell has said has been sufficient to put him in order now, and I have the floor. Is that correct?

The VICE-CHAIRMAN: I will have to resort to an old saying. As we say in French, "Quand vous avez fait votre lit il faut coucher dessus", or, in English, "When you have made your bed you have to lie on it."

Mr. Macdonnell was kind enough to tell me he had acquired a prescriptive right because he had called on me first. I am sorry to tell him he was not the first to call on me for that purpose.

Mr. MACDONNELL (*Greenwood*): I was the first in the meeting.

The VICE-CHAIRMAN: Was the meeting called to order when you called on me? I do not think so.

Mr. ARGUE: Oh yes, the proceedings were on.

Mr. FRASER (*Peterborough*): On a point of order, Mr. Chairman. When you called the committee to order on Bill 84—when the first item was called—Mr. Macdonnell immediately got up and said he would like to move that the 25 year period be extended to 30 years.

Mr. WEAVER: I have already spoken on this, but I would like to say I welcome Mr. Macdonnell's assistance as a champion of the farmer. At the same time, I will now make the motion I attempted to make previously.

Mr. MACDONNELL (*Greenwood*): On a point of order is not—

The VICE CHAIRMAN: Let us proceed in order as much as possible.

Mr. MACDONNELL (*Greenwood*): Am I not correct in saying that my motion is before you now? My point of order is that my motion must be dealt with. That is not an amendment to my motion—it is an attempt, which I greatly deprecate, to substitute something for my motion.

Mr. POWER (*Quebec South*): I would ask the chairman to rule on these various points of order so we could get along.

Mr. WEAVER: Can I have a hearing, Mr. Chairman?

The VICE CHAIRMAN: I have a motion here moved by Mr. Macdonnell and seconded by Mr. Quelch that clause (2) of clause 6 be amended by deleting the word "twenty five" and substituting therefor the word "thirty".

Are you ready for the question?

Mr. VIAU: This committee never received a motion from Mr. Macdonnell. He got up and said: "on a point of order—".

Mr. FLEMING: That is only half the story.

The VICE CHAIRMAN: The chairman has already received a motion. I think we can overlook that objection. Let us proceed with it.

Mr. BRYSON: Well, Mr. Chairman, I would like to move that the word "thirty" in the amendment moved by Mr. Macdonnell be deleted and that the word "forty" be substituted therefor.

If I might make a few remarks in connection with this amendment to the amendment, Mr. Chairman, I would say that the clause with which we are now dealing is one of the most contentious of the three or four clauses which compose this act, and this was brought very forcibly to the attention of this committee by Dr. Hope when he appeared several days ago before us.

The Canadian Farm Loan Board is attempting to make available not only short-term credit but long-term credit also, and that is an important feature as far as the purchase of farm land is concerned. I feel that long-term borrowing is not the only borrowing the farmer is going to have to do, in all probability, in the future. He will have to resort to short-term borrowing, and the interest is likely to be something more substantial than will be asked by the Canadian Farm Loan Board.

Mr. FOLLWELL: Although I am very close to the hon. member I cannot hear a word he is saying.

Mr. BRYSON: It is because I feel that the cost of capitalization today is such that a great deal of money is needed and because it is likely that a great deal more will have to be borrowed under this act, that I consider the term of repayment should be long enough to allow a man to make repayments under the best possible conditions, so that the loan should not be too burdensome. For those reasons I think the period should be extended to 40 years.

The VICE CHAIRMAN: Is the committee ready for the question?

Mr. ARGUE: Mr. Chairman, I want to say a few words in support of the sub-amendment. I wish Mr. Macdonnell had moved the abolition of the 25 years and the substitution of 40 years, because I think 40 years offers more advantage than the 30 year term. Dr. Hope, in the statistics he gave us as to the length of time the various farms in Ontario have been mortgaged showed successfully that the majority of farms in Ontario, according to the sample survey are in fact mortgaged for periods in excess of 40 years, and I

have no reason to think the experience differs to any great degree in the other provinces, which leads me to support as strongly as I can the extension of the period to 40 years. Such a step is necessary because, according to the general experience, it takes at least that long to pay off a mortgage. Probably of still greater importance is the fact that such an extension would reduce the carrying rate of the mortgage. According to the figures given us, I understand that at the present time a current five per cent mortgage costs an annual rate of 7.25 per cent. The move now suggested by Mr. Bryson would reduce this carrying charge from 7.25 per cent to 5.83 per cent. I think that is a very substantial reduction, and in the light of our experience with farmers, it is absolutely necessary. It is virtually impossible for a farmer to pay at a rate of 7.25 per cent, and he will not find it too easy to meet even this reduced rate of 5.83 per cent.

As far as the government is concerned, I think this will probably strengthen the mortgage loans they are making because repayment would be easier; farmers would find less difficulty making their remittances. I must say I am pleased that the indications are that there will be a move to increase the period from 25 to 30 years. That is certainly a step in the right direction and it emphasises, once again, the need for all committees to make a thorough study of the field covered by any bills referred to them. There are improvements being made to the bill this afternoon; improvements are being made at this time because we have had witnesses such as Dr. Hope. We heard an excellent statement from the Canadian Federation of Agriculture. The submission was so good that it not only convinced—I take it—all members of this committee but, more important still, it convinced the government and the cabinet, apparently, because we see that the increase to 30 years is being approved by the government. Even so, I suggest there is a great deal of merit in the suggestion that amortization should be over a 40 year period and I am therefore in favour of such an amendment.

The VICE-CHAIRMAN: Is the committee ready for the question?

Mr. JOHNSON (*Kindersley*): A recorded vote, please, Mr. Chairman.

The VICE-CHAIRMAN: The question is on the amendment to the amendment.

Moved by Mr. Bryson, seconded by Mr. Cameron that the word "thirty" in the amendment be deleted and the word "forty" substituted.

Mr. ARGUE: Could we not have the names called, and save the double-vote?

On a division the amendment was defeated by 21 votes to 6.

The VICE-CHAIRMAN: Is the committee ready for the amendment?

Mr. BENIDICKSON: On the amendment moved by Mr. Macdonnell, I think the record will show that whether in order or out of order I indicated earlier in today's proceedings that I was impressed—

Mr. MACDONNELL (*Greenwood*): I understood you to say you would second my motion.

Mr. BENIDICKSON: Yes. I was just going to make that clear. We are impressed by the evidence of the Canadian Federation of Agriculture with regard to this, and I would be very happy to support Mr. Macdonnell's amendment to this clause. It has been suggested that the term might be 40 years. I only point out that we have not, with regard to other loans in Canada, adopted yet, as a general rule, a 40 year term, and I think in this situation it would be better to increase the period from 25 years to 30 years rather than to create a longer term for one class of people and alter standard practice across Canada.

Mr. JOHNSON (*Kindersley*): I recall that Dr. Hope, when he was dealing with this particular amendment, intimated that it was a "creeping" step in the right direction. I think the amendment which Mr. Macdonnell has moved with government support is, indeed, a creeping step in the right direction and in the absence of something better I am certainly prepared to support it, hoping that at some date in the future we shall not be restricted by what other agencies are doing, but that the Canadian Farm Board will be considered on its own merits, and that if a 40 year period is considered necessary it will be granted without this regard for what other government agencies are doing.

Mr. MICHENER: There must be an optimum time and in my judgment 30 years is the right time. Mr. Johnson has called this a "creeping step", but if you creep beyond a certain point you may be advancing in the wrong direction. Some member of the committee might get up and suggest 100 years would be an appropriate period. That might be all right in some cases, and there may be some 100 year old farmers, but I do not think that is the average life during which a farmer can expect to work. It seems to me that anyone who wishes to acquire capital assets by the work of his hands and brain should expect to pay for those assets in 30 years, which is the period of high normal activity in the lives of most men; to extend the period beyond that would, in my view, be storing up trouble for the future. I am voting for the 30 year period because I think it is the right period, and because I believe that to extend it further would be creeping in the wrong direction.

Mr. ARGUE: I think the suggestion of 40 years is much preferable to the suggestion of 30 years.

Mr. HOLLINGWORTH: Have we not already dealt with that suggestion? I submit the hon. member is out of order.

Mr. ARGUE: Very well, I will confine my remarks to the question of the 30 year term. This, as we have heard, Mr. Chairman, has been referred to as a "creeping step in the right direction" but in my opinion it does not go nearly far enough. It is not good enough to say, as Mr. Michener has said, that the average person should be prepared to pay off any mortgage in 30 years, and for him to infer that a longer period is unnecessary in other industries the farmer should be prepared to accept the same situation. I am positive that every farmer would like to pay off his mortgage, but the long history of the agriculture industry shows that it is virtually impossible for a farmer to pay a five per cent interest rate on his capital and repay the principal over even a 30 year period.

If something could be done with regard to the agriculture economy to make it comparable with other industries as far as net income for the operator is concerned the position would be different. I believe any farmer would be more than happy to pay off his mortgage in 30 years, but because it seems to be inherent in our economy that the farmers always, year in and year out, gets a smaller return for his capital than anyone else, even a 30 year period is too short.

Mr. QUELCH: We supported the 40 year period because we believe that the longer the period of repayment the better. There is nothing to prevent a farmer from paying off his mortgage in a shorter time if he is able to do so, but we all know that farmers, generally speaking, are perhaps a little too optimistic. They will take on obligations which they will be able to meet provided they continue to get good crops and reasonable prices, but they have no control over these things, and should there be a succession of bad harvests, or a severe fall in prices, repayment becomes extremely difficult. As I say, we generally

find that farmers are too optimistic about their ability to repay obligations, and therefore the longer the period the better, in my opinion. If somebody had suggested 50 years I would certainly support 50 years.

What Mr. Michener has not brought out before this committee is that in many cases a mortgage is not discharged when an owner dies or a property changes hands. The amount of the remaining mortgage is simply transferred, and that is happening every day. Mr. Michener spoke of 30 years as being a reasonable time, but the committee will be quite aware that a lot of people take out mortgages when they are 40 or 50 years of age. For my part, I think the 40 year period would have been good. As for the 30 year period, it is certainly better than 25 years, so we shall support it.

By Michener:

Q. I would like to ask Mr. Chester whether there has been any difficulty about renewing mortgages after substantial payments have been made on account? If a farmer has taken a loan and brought it down to one half or one third of its original amount, and then requires more money, has he any difficulty in obtaining a second mortgage?—A. No, I would say it would be regarded as a new application, and the loan would very likely be granted.

With regard to our experience of the time during which mortgages are in effect, the average is 14 years; and the Ontario survey shows an average of 12 years. The survey conducted by the provincial government in Ontario—the survey which has been referred to—showed that mortgages on some 700 farms over a 50 year period were in existence, on an average, for 12 years. Our experience is that they were held for 14 years.

Q. I suppose, then, that if an elderly farmer takes a loan and reduces it, and his son takes over the land, say, after 10 years, the son is free to take a new loan himself on the same property?—A. Yes, certainly.

Q. If he took a 30 year loan, that would, in fact, be a 40 year term of repayment with respect to that particular land?—A. That is true.

Q. It seems to me, to hear some members of this committee talk, that they think that debt is a good thing in itself. I do not believe that, and I think we ought to set before peoples' minds a period which is reasonable, and not encourage them to go on paying money on debts all of their lives. It is clear from what has been said that if a man cannot manage to pay his debt in 30 years he will be able to extend his mortgage.

The VICE-CHAIRMAN: I will read the motion: Moved by Mr. Macdonnell and seconded by Mr. Charlton that subclause (2) of clause 6 be amended by deleting the word "twenty five" in line 35 of page 2 of the bill and substituting therefor the word "thirty".

The amendment is carried by a unanimous vote.

Subclause 6 (2) as amended agreed to.

Mr. FLEMING: Mr. Chairman, do you not think that Mr. Macdonnell ought to be congratulated on his extraordinary success in introducing an opposition amendment which has won unanimous support from the committee. This, surely, is an achievement.

The VICE-CHAIRMAN: Shall clause 7 subclause (1)—Reserve, carry?

Mr. MICHENER: I would like to point out to the sponsors of the bill, without making any amendment, that the proposed section 9 (1) seems to be inconsistent with the proposed section 9 (2). As I read clause 7 (1) it provides that the board shall establish a reserve out of which may be paid

any losses sustained in the conduct of any and all of its operations under this act. The board might feel obliged by that section to maintain a complete reserve, because any part of these loans might conceivably result in a loss, and that is not the intention of the next subclause we come to.

I throw that out for consideration without attempting to rewrite it in committee.

Clause 7, subclause (1) agreed to.

The vice-chairman:

On clause 7, subclause (2).

By Mr. Michener.

Q. May I ask a question, Mr. Chairman, for the sake of clarification? My understanding is that when the new subsection on capital has been made there will be an extra amount added to the present reserve of \$2,300,000 enabling the board to establish a reserve equal to the amount of capital. Is that correct?—A. No. That is not right. It has nothing to do with the subscription of capital. This has to do with reserves. We already have \$3 million in reserve. This establishes one reserve fund in place of two as at present.

Q. You mention \$3 million. I see, from the balance sheet, that the amount reserved for losses is some \$2,300,000.—A. There is also a statutory reserve of \$878,230.

Q. Mr. Chairman, could someone explain to me where the second clause 2 of clause 7, on page 3 of the bill, will find itself in the act after this bill has been passed? I understand that clause 7 (1) of the bill provides for new subsections (1) and (2) of section 9. Then, again, clause 7 (2) of the bill also says something about existing reserves. Would that not be the new subsection 3 of section 9 of the act?—A. This was drawn up by the Department of Justice—

Q. They are infallible, I understand.—A. I think probably they are in this case. My understanding is that this will not appear in the consolidated statutes. This is something which will enable these changes to take place as at a certain date, and from that point on it will be necessary.

Q. How will anyone know that that is the law if it does not appear in the consolidated statutes?—A. You will just have to refer back.

Q. I see. It is something that happens once only.

By Mr. Fleming:

Q. With respect, I do not think that is a good enough reason for leaving it out. Apart from changing the provisions of section 9 of the act, clause 8 of the bill proposes to repeal sections 10, 11 and others of the act. People referring to the act after amendment can very easily be misled by not having the whole act included. Consolidations are prepared from time to time and I think it is inevitable that someone is going to overlook the fact that there is, in the 1956 statute, a provision which is not carried into the consolidation. It is true that the provisions of subclause 2 of clause 7 of the bill are not enduring in their effect, and that they apply only to a particular time, and that when the terms of those provisions have been satisfied they would, presumably, cease to be applicable. But no one reading the statute could understand that it has that effect, limited in point of time; and I do not think we have been given a good reason for leaving strewn around in the statutes provisions which do not appear in the main act. This bill before us, in all other respects, amends the act. My suggestion is that no harm would be done and that, on the contrary, an improvement would be made, if we treat subclause 2 of clause 7 of the bill as though it were to be section 10 of the act.

You are removing clause 10 and you have numbers to spare. Why do we not simply introduce an amendment here that this subclause should be section 10 of the act?—A. If you do that you will have to carry on all through the act and renumber all the clauses.

Q. Oh no.—A. You have a clause 10.

Q. No, this is section 10 of the act. You have got a clause 10 of the bill, but that has nothing to do with the point I am raising.

The effect of clause 8 of the bill is to repeal sections 10 and 11 of the act. You have got two numbers to spare and it is fortunate that one of them, number 10, follows immediately after section 9 of the act. Why not assign section 10 to the paragraph that now constitutes the subclause, to that space?—A. This, of course, is something out of my line. It concerns the drafting of the bill, that is carried out, I think the committee will agree, by people who know what they are doing. If we follow your suggestion in this case, Mr. Fleming, we would have to go back and make several changes in other cases. I think it would have to be done, for instance, on page 2.

MR. MICHENER: In order that this matter may be disposed of more quickly I would like to suggest that the second "two" on page 3 of the bill be changed to "three" so that this section which, according to the explanation, would not go into the bill, will appear as subsection (3) of section 9 of the act.

The VICE-CHAIRMAN: Would you agree to put a motion in writing, then, maybe, we could allow this matter stand until this afternoon.

MR. MICHENER: It seems to me that if something along the lines I have suggested is not done there will be confusion later on as to just what authority there is for these steps being taken.

MR. BENEDICKSON: Mr. Chairman, I think your idea that we should defer consideration of this matter is a good one. These are questions which receive very close attention from the Department of Justice and in my view, with respect to all concerned, we should not commit ourselves to any action without making sure we are on proper ground.

The VICE-CHAIRMAN: Shall clause 7, subclause (2) stand?
Agreed.

Clauses 8 to 11 inclusive agreed to.

The VICE-CHAIRMAN: Gentlemen, I suggest that at this point we adjourn until 3:30 this afternoon. Agreed.

AFTERNOON SESSION

THURSDAY, April 26, 1956
3.30 p.m.

The VICE-CHAIRMAN: I think gentlemen, we have a quorum, so let us revert to clause 7 subclause (2) which was left standing this morning.

MR. MICHENER: Mr. Chairman, I have given further consideration to the problem which arises not only in this particular instance but with regard to other clauses of the bill. There are, indeed, two or three sections whose operation would be spent as soon as the act comes into force, and rather than try to tidy up this position I would prefer to leave the matter as it has been put by the Department of Justice.

The VICE-CHAIRMAN: Subclause (2) of Clause 7 agreed to?
Agreed.

Shall the preamble carry?
Agreed.

On the title of the bill:

Mr. ARGUE: Mr. Chairman, I have a motion which I would like the committee to consider at this time. It has to do with the expenditure of money, so it cannot be a direct amendment to the bill; it will, therefore, have to be a simple motion that this committee should consider making a recommendation to the government. I have, accordingly, drawn up a motion in these terms:

That in the opinion of the Committee the government should consider the advisability of paying to the board, from time to time, out of the Consolidated Revenue Fund sums equal to the administrative costs of the board.

I think it is perfectly clear that this is not necessarily going to involve the expenditure of money. The committee may ask the government to consider any proposition which is relevant in connection with the legislation, and the government itself will then decide whether it should follow through and put that recommendation into the form of an enactment.

The suggestion which I propose follows the recommendation which was made to the committee by Dr. Hope, namely that the treasury itself should bear the cost of the board's administration. Dr. Hope advocated that suggestion as being one means of lowering the rate of interest which the borrower would have to pay. He went on to explain that if the government agreed to do this it would probably result in the lowering of the rate of interest to $3\frac{1}{2}$ per cent.

In advancing his argument for an interest rate of $3\frac{1}{2}$ per cent he said that farmers' earnings on capital, from a long-term experience, averaged $3\frac{1}{2}$ per cent and his figures also showed that a producer would earn even on such a low payment for capital approximately less than \$1,200, even taking into account income earned by unpaid family labour.

I think that one of the basic points in Dr. Hope's brief was his contention that agriculture could not bear a high rate of interest—that a farmer could not pay five per cent and maintain, at the same time, a reasonable standard of living for himself and his family. Therefore, in keeping with the recommendation made by the Canadian Federation of Agriculture, namely recommendation 4 (d).

Mr. VIAU: On what page?

Mr. ARGUE: It is contained in the recommendations at the end of the brief—

Reduce the interest rate charged on first mortgage loans from 5 per cent to the cost of the money plus the legal reserve, leaving administrative costs to be borne by the government.

I am asking the committee to give consideration to making the recommendation which I have outlined.

The VICE-CHAIRMAN: Will you let me have a copy of the motion?

Mr. VIAU: Would that cover the legal costs, too, of the transaction?

Mr. ARGUE: I am not too sure whether legal costs will be considered part of the costs of administration. I take it they would under that recommendation, 4 (d).

The VICE-CHAIRMAN: I am ready to hear any comment which members may wish to make.

Mr. RICHARDSON: As a new member of the committee, perhaps I might be allowed to suggest that our purpose here is to consider Bill 84. Could we be informed, Mr. Chairman, whether we are able to go outside our consideration of this bill and bring in a resolution of the kind suggested? I am not speaking either for the motion or against it. It is a question of order.

Mr. QUELCH: It has always been the practice that when we report back to the house we can make any recommendations which we think proper concerning the bill. It has been done from time to time. We did it the other day on the agriculture committee.

Mr. VIAU: That is a different thing altogether. That was a recommendation that the credit unions be made agencies for loans. It involved no expenditure of money.

Mr. ARGUE: But it would follow automatically that they would get the 10 per cent guarantee.

The VICE-CHAIRMAN: I would like to put a question to you, Mr. Argue. I would be ready to agree that the rule by which amendments cannot be added to a bill, outside the scope of the bill, may not apply in the case of a recommendation such as you have in mind. But do you feel, Mr. Argue that what you have sent to me is a recommendation?

Mr. ARGUE: That is what I endeavoured to draw up, Mr. Chairman in those terms.

The VICE-CHAIRMAN: But did you actually reach that goal? What you say is: "That in the opinion of the committee the government should consider . . ." and so on.

Mr. ARGUE: I think it is drawn up in the regular terms used when, for example, motions are moved in the house. We have done so on many occasions this session. There are two qualifications in the resolution with regard to the expenditure of money: the first is provided by the phrase "in the opinion of the committee". The committee is merely expressing an opinion; it is not instructing anyone—it is not an instruction to the government even by way of an opinion. It merely calls on the government to consider the feasibility of doing certain things from time to time. All the government has to do in order to comply with its terms is to consider the matter. The motion cannot suggest anything else because it is a well known rule that we cannot move for the expenditure of money.

I may add, for the benefit of members of the committee, that I have discussed this question with the authorities—I do not want to mention any names—and one of them suggested I might take the opportunity of moving this motion when the committee reached the bottom of the first page, but I discussed the matter again with another fairly well known authority, and he thought that perhaps the best place for doing so would be when the committee came to the title of the bill. But certainly I have had the benefit of the best advice I was able to get—the advice of people not connected with any political party—and I was informed that this motion would be in order drawn up in these terms.

The VICE-CHAIRMAN: I would like Mr. Argue to remember that I am not arguing with him on what might be called the merits of the motion itself. It is just a matter of the way in which this is put down on the paper before me. I can see, for instance, that if another form of wording were used—for example, if this began by saying: "That the committee recommends that the government give consideration . . ." etc. . . .

Mr. ARGUE: Would you care to correct it, then?

The VICE-CHAIRMAN: Well, that is my suggestion.

Mr. ARGUE: How would it read then? It would be all right with me if it started off by saying "the committee recommend". I am perfectly agreeable to amending it in any way which would put it in order without changing the general meaning. It is merely a recommendation.

The VICE-CHAIRMAN: I know, but whether you say it is a recommendation or not will not carry much weight, I regret to say, if it does not appear as a recommendation. We have to go by the record and the house will have to go by the record.

Mr. ARGUE: How would you suggest that it be changed?

The VICE-CHAIRMAN: I think it should read this way:

That the committee recommends that the government give consideration to the advisability of paying to the board from time to time out of the consolidated revenue fund sums equal to the administrative costs of the board.

Mr. ARGUE: Agreed.

The VICE-CHAIRMAN: Is there any member who has anything to say about that?

Mr. BENIDICKSON: Mr. Chairman, we have examined this bill quite exhaustively. We are at the end of our consideration of the bill, clause by clause, and this is a new suggestion.

It appears to me that this is an item which could more properly be brought before the House of Commons by a resolution which, as all members know, is open to any member to move at a time, when all members of the House of Commons would have an opportunity of considering the merits of the proposal. I do not propose to look at the merits of the motion at this point but involved in the merits is, of course, the question of a subsidized rate of lending to one class of people. I am going to leave it at that.

I would think we are a relatively small portion of the House of Commons assembled here. The matter of asking the government to give consideration to this point is something which could be done by my hon. friend from Assiniboia (Mr. Argue) or any other member of the house by a motion in the House of Commons itself, and on that score, at this rather belated point in our consideration of this bill, I do not think I shall vote for the motion.

Mr. JOHNSON (*Kindersley*): In connection with what the parliamentary assistant has said I can appreciate the point he has brought up—that we should not, perhaps, suggest too many amendments which are major in scope, but at the same time he will appreciate the fact that members of this committee, having heard the evidence presented to us, are in a better position than members of the house, who have not heard this evidence, to pass judgment on this question.

I know that I, for one, have gained a great deal of experience and knowledge during the sittings of this committee and I think for that reason it would be advisable that we should pass judgment on this matter. If the motion were turned down by this committee it would still not prevent any one from pursuing the matter at a later date in the House of Commons.

Mr. ARGUE: Will you take the names, Mr. Chairman?

The VICE-CHAIRMAN: Before we go on to a vote I would like to express an opinion. I am not ready to rule this out of order simply because it does not come before us as an amendment, but to make my point clear I should like to tell the committee a story. It is about an army officer on his rounds of inspection who asked one of the soldiers: "Did you shave this morning?" The soldier said: "Yes sir", to which the officer replied: "O.K., but next time stand a bit closer to the razor."

I am not ready to rule this out of order simply because it is a recommendation. I am in the hands of the committee and I will have to call a vote on it.

Mr. MACDONNELL (*Greenwood*): My understanding is that this is an ordinary practice. As to the vote, I am going to vote against it on the grounds given by Mr. Beridickson.

The VICE-CHAIRMAN: Very well, the question is:

Moved by Mr. Argue, seconded by Mr. Johnson that the committee recommend that the government give consideration to the advisability of paying to the board from time to time out of the consolidated revenue fund sums equal to the administrative costs of the board.

This will be a recorded vote.

On a division the motion was defeated by 15 votes to 3.

Title agreed to.

Bill as amended agreed to.

Bill as amended to be reported.

Mr. JOHNSON (*Kindersley*): There is just one point I have in mind. I recall that at one of the committee meetings it was agreed that Mr. Chester would give us the names and general areas served by permanent and part-time inspectors, and I wonder if that information is available for the record?

Mr. FRASER (*Peterborough*): Could Mr. Chester also give us the number of second mortgages that failed?

The WITNESS: The answer to Mr. Johnson is in the form of a printed list and I will hand it in to be printed in the record of proceedings. (See *Appendix*). The other question, by Mr. Fraser, was how much had been written off to reserve under second mortgages; the answer is: nil.

Mr. ARGUE: I move we adjourn.

The VICE-CHAIRMAN: We shall adjourn to the call of the chair, is that agreed?

Agreed.

APPENDIX

CANADIAN FARM LOAN BOARD INSPECTORS

| <i>Full-time</i> | <i>District</i> |
|--------------------------------------|-----------------|
| H. D. Carr, Regina | Rover |
| J. W. Clausen, Yorkton | 5 |
| W. J. Matthews, Moose Jaw | 1 & 2 |
| M. G. Rupert, North Battleford | 3 |
| A. C. Voellmecke, Muenster | 4 |
| <i>Part-time</i> | |
| A. Fenske, Springside | 5 |
| J. A. Glass, Prince Albert | 4 |
| R. L. Hill, Red Jacket | 1 |
| W. R. Hodgins, Tisdale | 5 |
| C. J. Markusson, Bredenbury | 4 |
| A. D. McCollum, Assiniboia | 2 |
| J. A. Stueck, Abernethy | 5 |
| C. A. Thompson, Humboldt | 4 |
| R. V. Thorpe, Lac Vert | 5 |
| M. W. Todd, Rosthern | 4 |
| J. Vonau, Lipton | 5 |
| A. B. Cochlan, Moose Jaw | 2 |

No. 7

Doc
Canada Banking and Commerce
Standing Committee on 1936

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 8

BILL 51

An Act to amend the Small Loans Act

TUESDAY, MAY 15, 1956

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE
on
BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

| | | |
|-----------------------------------|----------------------------|------------------------------------|
| Argue | Gour (<i>Russell</i>) | Philpott |
| Ashbourne | Hanna | Power (<i>Quebec South</i>) |
| Benidickson | Henderson | Quelch |
| Blackmore | Hollingworth | Regier |
| Cameron (<i>Nanaimo</i>) | Huffman | Richardson |
| Carrick | Low | Robichaud |
| Charlton | Lusby | Rouleau |
| Crestohl | Macdonnell (<i>Green-</i> | St. Laurent (<i>Temiscouata</i>) |
| Deslieres | wood) | Stewart (<i>Winnipeg</i> |
| Enfield | MacEachen | North) |
| Eudes | Macnaughton | Thatcher |
| Fairey | Matheson | Tucker |
| Fleming | Michener | Valois |
| Follwell | Mitchell (<i>London</i>) | Viau |
| Fraser (<i>Peterborough</i>) | Monteith | Vincent |
| Fraser (<i>St. John's East</i>) | Nickle | Weaver |
| Fulton | Pallett | White (<i>Waterloo South</i>) |

Eric H. Jones,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, May 15, 1956

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Argue, Ashbourne, Benidickson, Blackmore, Cameron (*Nanaimo*), Carrick, Deslieres, Enfield, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Gour (*Russell*), Hanna, Henderson, Hollingworth, Huffman, Hunter, Macdonnell, (*Greenwood*), MacEachen, Michener, Philpott, Power (*Quebec South*), Quelch, Regier, Robichaud, Viau, Weaver and White (*Waterloo South*).

The Committee proceeded to give initial consideration to Bill 51, An Act to amend the Small Loans Act.

On motion of Mr. Argue,
Resolved,—That Mr. Stewart (*Winnipeg North*) be substituted for Mr. Johnson (*Kindersley*) on the Sub-committee on Agenda and Procedure.

On motion of Mr. Hanna,

Resolved,—That the Committee print 750 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence in respect of Bill 51, An Act to amend the Small Loans Act.

The Chairman presented the Third Report of the Sub-committee on Agenda and Procedure, as follows:

Your Sub-committee met at 10.00 o'clock this day and agreed to recommend:

That the Committee at its meeting this day first deal with certain organizational matters relating to the subsequent consideration of Bill 51, An Act to amend the Small Loans Act, and then proceed to consider the report of the Bank of Canada for the year ended December 31, 1955; and

in relation to Bill 51:

That the evidence of Mr. Leon Henderson, Consulting Economist, of Washington, D.C., U.S.A., before the Banking and Commerce Committee on March 2, 1938, be printed as an appendix to this day's proceedings of the Committee on Bill 51; and that those proceedings be printed separately from the proceedings of the Committee on the report of the Bank of Canada; and

That the order of business on Bill 51 at subsequent meetings of the Committee be as follows:

1. To hear Mr. K. R. MacGregor, Superintendent of Insurance;
2. To hear representations from the following:
Canadian Consumer Loan Association
Canadian Bankers Association
Canadian Bank of Commerce
Personal Finance Company of Canada
Niagara Finance Company Limited

The Honourable Senator Cyrille Vaillancourt, representing La Fédération des Caisses Populaires of the Province of Quebec

The national organization of Credit Unions

3. Clause by clause consideration of Bill 51; and

That the Committee not sit at 3.30 o'clock p.m. this day as had been planned; but that it next week meet at the call of the Chair.

Respectfully submitted.

The Third Report of the Sub-committee was adopted unanimously. The Committee agreed to let stand further consideration of Bill 51.

(Note: At 11.20 o'clock a.m., the Committee proceeded to consider the report of the Bank of Canada for the year ended December 31, 1955, in respect of which the Minutes of Proceedings and Evidence of the Committee are recorded in Issue No. 9 of the Committee.)

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

TUESDAY, May 15, 1956.
11.00 A.M.

The CHAIRMAN: Gentlemen, we have a quorum.

Mr. Argue, you have a motion?

Mr. ARGUE: Yes. I move, Mr. Chairman, that Mr. Stewart (*Winnipeg North*) be substituted for Mr. Johnson (*Kindersley*) on the Sub-committee on Agenda and Procedure.

The CHAIRMAN: You have heard the motion gentlemen?

All those in favour? Contrary if any? Carried.

Mr. Hanna, you have a motion?

Mr. HANNA: Mr. Chairman, I move, seconded by Mr. White (*Waterloo South*), that the committee print 750 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence in respect of Bill 51, An Act to amend the Small Loans Act.

The CHAIRMAN: You have heard the motion, gentlemen.

All those in favour? Contrary if any? Carried.

The CHAIRMAN: The reason we brought that up at this time is that we are going to go into Bill 51 very briefly right now for the purpose of having certain evidence from the 1938 evidence of the Banking and Commerce Committee printed and made available to the committee.

In 1938, before the Banking and Commerce Committee, there was evidence by Mr. Leon Henderson who had been an economist with the Russell Sage Foundation. The Russell Sage Foundation was a philanthropic foundation which specialized in sociological problems. It originally had made an intensive and prolonged investigation into the "loan-shark" business. It was as a result of their investigation and recommendations that the 48 states of the United States have their Small Loans Act. His evidence was given in an extremely impartial way, and I thought that, since it had been given in such an impartial and detached way, it would be of value now to have it before this committee. Therefore, as a result of that, I am going to ask you to approve the third report of the Sub-committee on Agenda and Procedure, as follows:

(*Note: See Minutes of Proceedings of Third Report of Subcommittee on Agenda and Procedure.*)

The CHAIRMAN: I thought the committee could decide that they would call, perhaps, Senator Vaillancourt in connection with the credit unions. We could find out who would be a suitable person to represent the national association of Credit Unions and we would endeavour to get a representative from that organization.

Then the next order of business on Small Loans would be a clause by clause consideration of Bill 51. Further, your sub-committee recommends that this committee will not sit at 3.30 p.m. this day but that it next meet at the call of the chair.

Is this report of the sub-committee agreed to?

Agreed.

Mr. MACDONNELL (*Greenwood*): Mr. Chairman, may I make a comment? I am wholly and heartily in favour of the printing of the Henderson evidence, but I raise this: I have read the minutes of 1938 and it seems to me the evidence contains a lot of valuable information. I was wondering if it would be too much to ask that the whole of that be printed. It was evidence from a wide range of people, and as far as I am concerned, I think I learned a great deal from reading the whole of the minutes.

The CHAIRMAN: It is pretty bulky. I should add that the report of the committee sitting at that time will be made available to this committee.

Mr. MACDONNELL (*Greenwood*): That will raise another question. The volume that you hold up there includes all the evidence, does it?

The CHAIRMAN: Yes.

Mr. MACDONNELL (*Greenwood*): Was the report itself not reasonably short?

The CHAIRMAN: This is it, here. This will be available to this committee. We have sufficient copies to be distributed to the committee.

Mr. HOLLINGWORTH: Mr. Chairman, when will we begin consideration of the Small Loans Act? When will Senator Vaillancourt appear?

The CHAIRMAN: I am not sure of that. I will have to let you know later.

Mr. HOLLINGWORTH: Will it be this week or next week?

The CHAIRMAN: It will not be this week.

Mr. HOLLINGWORTH: No.

The CHAIRMAN: Possibly next week, or maybe the following week. I am not sure of that, Mr. Hollingworth.

Mr. MACDONNELL (*Greenwood*): One other question, Mr. Chairman. You read quite a long list of people in the report of the Sub-committee who are going to be asked to give evidence. Supposing there is someone who turns up and wants to give evidence, who was not as yet—

The CHAIRMAN: I think in that case the steering committee can report its recommendation to the committee. These are the only people who have indicated, I believe, that they wish to appear, with the exception of the Canadian Bank of Commerce, who have not indicated that they wish to appear, but whom we wish to call. Senator Vaillancourt has not indicated that he wants to be heard, but he was there in 1938 representing les Caisses Populaires, in Quebec, and we thought we would ask him to be present.

We would also like to get an official from the Canadian Association of Credit Unions, with whom we have not communicated so far.

All those in favour of adopting the report of the sub-committee? Contrary, if any? I declare the report adopted.

APPENDIX

EXTRACT FROM THE MINUTES OF PROCEEDINGS AND EVIDENCE OF THE STANDING COMMITTEE ON BANKING AND COMMERCE OF MARCH 2, 1938, RESPECTING SMALL LOAN COMPANIES, BEING THE EVIDENCE GIVEN BY

MR. LEON HENDERSON,

Consulting Economist, of Washington, D.C., U. S. A.

The WITNESS: Mr. Chairman, Mr. Minister and members of the committee. My name is Leon Henderson. My present home address is Washington, D.C. I am a consulting economist for various government agencies, such as the Works Progress Administration and the National Resources Committee; but I am also engaged in private work and work with State and local governments.

For eight years, beginning in 1925, I was Director of the Department of Remedial Loans of the Russell Sage Foundation; that is, from 1925 to 1933 inclusive, when I left to become chief economist for the National Recovery Administration in Washington. In that eight year period there was a dynamic quality to consumer credit which made it one of the most interesting phenomena, I think, of the period that we know as the boom period in the United States; and we were beginning at the Sage Foundation in research to have some vague intimation of the part that consumer credit plays in the economic process.

The Russell Sage Foundation itself is an endowed institution, and I quote part of its charter—"for the improvement of social and living conditions." It is generally thought of in the list of American foundations as the one which has devoted its research to social and welfare affairs while, for example, in a similar field, the Rockefeller Foundation has devoted its research to medicine and education. The Foundation was endowed by Mrs. Russell Sage, and it has been an independent enterprise. One of the first excursions into the causes of poverty was in this field of consumer credit, or, as it was then known, remedial loans. Mrs. Sage inherited quite a large fortune from the capitalist, Mr. Russell Sage, and she was besieged as well as beseeched by literally thousands and thousands of people to come to their rescue and aid with some part of this inheritance. As a result she set up quietly a staff of investigators and almoners, and one of those to whom I had talked at rather great length is now in charge of the United States Employment Service W. Frank Persons.

One of those investigators and almoners would go around to find out why it was that people and families were in such dire straits that they would write such pathetic letters, and he found literally hundreds and hundreds of loan shark cases. So the first investigation was begun under the general direction of two Columbia professors with two graduate students, Arthur Ham and Clarence Wassam. That work has continued fairly uninterruptedly from 1907 down to the present time. There was a break during the war period. But there have been four directors, one of whom was an acting director in that period, and it is pleasant to survey a condition stretching over thirty years and find that four directors have never had a single large disagreement as to principles involved in consumer credit. There has been this continuity and constance of opinion. I say it is pleasant because the area of conflict of ideas in economic matters and consideration seems ever to be widening, and it is nice to find a calm place. Therefore, though I do not represent the Russell Sage Foundation today, I believe I can say that I represent their point of view and that of the other directors who have been with the Russell Sage Foundation.

Just one small observation as to the relation of credit to the economic process, which I think is worth while. I said that in that dynamic period of the United States boom of the twenties we began to feel that there was a definite relationship between the amount of consumer credit being extended

—that is, instalment credit, small loans, loan shark credits, credit unions, industrial banks and bank loans for consumptive purposes—and the acceleration that was taking place in the whole credit structure. We were a bit apprehensive as to what would happen once there was a puncturing of the boom.

I must say that it was not possible until the last few years to really get any kind of measurement of the feeling as to how important this consumer credit extension is to the business cycle. But I can say most sincerely, first, that we know that its accelerating qualities in the boom are tremendous and that its aggravation of the decline is so tremendous that no industrial country which is influenced largely by credit can escape taking notice and perhaps looking towards some type of control or regulation of the various forms that this credit takes.

We estimate that the open book credit, plus the instalment credit and all forms of lending pawnbroking and things like that, attained a status of \$11,000,000,000 in 1929, and that we had returned in the United States to that figure and perhaps would have very soon exceeded it by the middle of 1937. There is just one figure to which you might relate that. The total volume of retail sales in the United States in 1937 will be something of the order of forty billion dollars. So that you can see that this eleven billion dollars available for the investment market.

It has to be liquidated in a short time, as it must by its nature and character, exercises a tremendous effect on the business cycle and tends to aggravate the amplitude of the swing.

There is one other very large factor which I will not take much time to discuss this morning, but it is of extremely high importance in the American economy at the present time. We have an imbalance as between savings and investments, which is very, very substantial—

Mr. MARTIN: What is that?

The WITNESS: The imbalance as between savings and investments—new investments. That is, we are not finding as we did in our dynamic period, an outlet for all the savings. That is partly due to the fact that our savings are concentrated in the higher brackets. Where we had, say in one high bracket in 1929, a billion dollars of income, the personal expenditure of that particular group did not exceed eighty million dollars, leaving over nine hundred million dollars available for the investment market.

The American economy has got to a stage where it is not expanding fast enough to take up this saving which in 1936 was probably in the order of about six billion dollars. Up to that time, government financing had tapped the market and the amount of durable goods, plant extension, was being paid for largely from depreciation accounts which had been unspent up until that time. And a part of the dearth of the market for plant expansion and new issues very definitely can be traced to the fact that our industrial empire is not expanding, certainly not at a rapid rate. But the more important thing is this, as it relates to purchasing power: if we assume that there is six million dollars of savings in any one year, and that is not called up by the investment market, then there is a lack of equilibrium between the purchasing power produced at the production end and the purchasing power at the consumers' end to take goods off the market. Now, in the twenties a part of the excess of savings that was not being taken up even then by our capital market was drawn into this consumer financing.

Hon. Mr. DUNNING: What we call here small loans?

The WITNESS: Small loans. But, Mr. Minister, we have extended at the Sage Foundation our definition from small loans to consumer credit. In fact, what was the department of remedial loans and what was our small loans research now have become consumer credit.

Mr. TUCKER: Would that include instalment buying?

The WITNESS: Yes.

Hon. Mr. DUNNING: Instalment financing generally.

The WITNESS: Instalment financing generally, pawnbroking, and all loans that are made for consumer purposes, the extension of credit, including open-book credit.

Now, when a part of the savings which ordinarily would go into the capital markets and would become really productive equipment is drawn off for consumers' goods and then you get for any reason, cyclical or otherwise, a diminution in general purchasing power being made available to consumers, there is this pressure to liquidate consumer credit, and you have very, very quickly the money being paid currently on instalment accounts, on small loans, and on retail credit going back into capital account. That is, it is again available for capital expenditures but since in a declining market or on the down-side of a business cycle there is no huge demand for funds for investment, there is an accentuation which may or may not account for some of the continuance of possibilities of cheap money. I have gone to some length on this because it seems to us—when I say "us" I am speaking of the labours of the Russell Sage Foundation and using their terminology—that entirely apart from the social considerations that have moved us in the past to look for regulation of lenders and protection of borrowers, there is this large cyclical matter which is bound to engage the attention of any government, particularly with the growing pressure for intervention of all kinds by government in economic affairs.

Hon. Mr. DUNNING: And because of its effects on the general economy.

The WITNESS: That is right. I had that very definitely in mind, Mr. Minister. There is this growing pressure, and if there is no control at all then you would have left out of your scheme of reckoning something which is of high and extraordinary importance.

The general types in the United States of small loan extension entirely apart from open books and instalment credit are the institutional agencies such as credit unions and personal loan departments of banks, semi-philanthropic agencies, what would be called the *mont-de-piété* in France, and the personal finance companies which are the commercially regulated lenders. Now, the Russell Sage Foundation has spent several hundred thousands of dollars in research since 1907; but its initial aim, as I say, was to eliminate the loan shark. It very quickly found that although you might have alternative sources growing up, such as philanthropic funds—and one of the greatest pools of money that is available to poor people in New York is the semi-philanthropic fund, the public loan societies—as alternatives to the credit union there still remained a wide area that needed to have a general supervision because of its impingement on society. That was the field of commercial regulation. So the Russell Sage Foundation for a long time has been working on an analysis of the causes of borrowing and how it might best be approached in regulation. That has pretty generally been by means of the recommendation of the uniform law, which is a model law now in effect in about twenty-seven states. These twenty-seven states pretty largely include the states with the largest industrial population in the country.

Hon. Mr. DUNNING: Excuse me for interrupting you, but in the United States there is no question of jurisdiction. Jurisdiction is wholly state, is it not?

The WITNESS: That is right. In fact the interest provision is written into many state constitutions.

Hon. Mr. DUNNING: It does not enter into the picture.

The WITNESS: No. In the NRA we felt that there was interstate commerce of a character which would allow us to require a code for companies, but that

would be mainly for purposes of getting labour standards rather than for practices; although there was a very definite drive in the NRA to establish consumer protection, particularly for a clear statement of the rates that would be charged to borrowers.

Now, the Russell Sage Foundation considered world legislation and world attempts at money lending. There were pretty generally three kinds of methods used. One was the free market, sanctioned by Jeremy Bentham and which stated pretty generally that contracts were relationships between the borrower and the lender and that they were no different from any kind of contract or relationship. There was the restraint type which assumed that the lending of money in small sums ought to be forbidden, even up to the amount of prohibition, or that it ought to be under restraint. We had consideration of freedom of contract, restraint or prohibition, and as you probably know, in England the leaning is now towards the free market and restraint. I have been through the Australian and the Straits Settlement legislation pretty generally, and I have made a study of the legislation in the entire British Empire. Their legislation has tended to be modelled on the British statement of 1900 and 1927; but it is interesting to notice that increasingly they are having to widen the area of state intervention and supervision, and also—and this relates to what I have said before—attention is being given to bring hire-purchase agreements under some sort of general supervision and regulation.

Our first draft of the uniform law required the licensing of money lenders on bond, a flat statement of the charge, and that required a dip into ice-cold water. The first rate was three and one-half per cent a month on unpaid balances, because the Russell Sage Foundation felt that very definitely the borrower ought to be put on notice as to what his charge was, and that a high charge would be a deterrent. There was provision for the keeping of records, the type of security and more than anything else, however, even in its earliest days the uniform law very definitely went towards assessing the responsibility through some public officer. That is the keystone upon which the uniform law and its succeeding draft have been built. That keystone was the public officer. Under that system we made a strict and clean cleavage and departure from the English System. We felt that there was no other way to afford a borrower that kind of protection that he needed. Now, as to that restriction and as to whether or not the rate does prevent too wide an expansion of borrowing there has been much controversy. But I checked the amount of borrowing in Minnesota, which is a loan shark territory and has no regulation, with New Jersey, one of the most industrialized populations that we have, and found that it was almost the same. In other words, whether the rate was about twenty per cent per month as in Minneapolis, St. Paul and Duluth and some of the other cities—

Hon. Mr. DUNNING: We are just getting our breath after hearing you mention that rate.

The WITNESS: Twenty per cent per month is the prevailing high rate in the United States. If I might put a peg rate there I will say that in the states that have not adopted the uniform law the prevailing rate of charge is twenty per cent per month.

Mr. HOWARD: Without endorsement?

The WITNESS: Without endorsement; but very frequently it involves a pretended sale of wages. It is collected—

Hon. Mr. DUNNING: They buy so much of the man's wages?

The WITNESS: Yes, any types of usury that he can get away with. The volume of business at twenty per cent per month in Minneapolis, which is the rate at the present time, is almost equal per capita to the amount in a regulated state.

Hon. Mr. DUNNING: Like New Jersey?

The WITNESS: Yes, which proved to us that, of course, the demand was there; that it arose out of the conditions of the people rather than being stimulated by the existence of the available agencies.

Hon. Mr. DUNNING: Then, to complete that picture, what is the prevailing rate in New Jersey, the regulated state, with which you are making a comparison?

The WITNESS: Two and one-half per cent per month on the unpaid balance.

Mr. PLAXTON: Is that a flat rate applicable to all classes of loans?

The WITNESS: Yes.

Mr. DONNELLY: Do you mean on a small loan, under \$500, or what do you mean?

The WITNESS: In New Jersey it is \$300. The limit of the uniform law has been \$300 and that been kept at \$300 regardless of the fluctuation of the population, partly for constitutional reasons and partly because our experience showed that while there were a number of other agencies, this was the proper flat limit.

Mr. VIEN: Would that be inclusive of all charges, and disbursements?

The WITNESS: Yes.

Mr. VIEN: All inclusive?

The WITNESS: Yes, excepting where there were state laws which would require some kind of registration fee which would necessarily affect different companies.

Mr. COLDWELL: What is the rate in New Jersey?

The WITNESS: Two and one-half per cent per month on unpaid balances.

Hon. Mr. DUNNING: Covering everything?

The WITNESS: Covering everything. I shall come to the discussion on the rate later. I welcome this kind of interruption, because I have been a school teacher and public speaker for years. In that way I have felt the force of heckling and interruptions. It has been rumoured that I like it. This uniform law which was adopted first by the Russell Sage Foundation in 1916 has had several modifications. I am not going to take you through the techniques of them, but simply to point out that there has been a decided shift of emphasis due to the experience of the 1920's. The Russell Sage Foundation felt very definitely that there was a place for a business to render a typical business service in this field. It felt that if it were legitimatized there would be capital available. It was not, however, until the late 1920's that the ordinary facilities of the market were available to small loan companies, so great was the taint on money lending and so great was the confusion as between money lending companies under strict scrutiny and supervision and the vicious loan shark practices, amounting to rackets in many of our cities. But the Foundation had consistently been changing the nature of the public officials responsibility under sections 3, 4 and 5 of the draft, and even giving encouragement to the exchange of information among the supervisors of the various state laws. And out of that has come a decided advantage, and by the late twenties when they had begun to meet the test which our security market puts upon the business and when we had become convinced that there were in the picture several corporations, competing corporations I should like to emphasize, whose responsibility and whose acceptance of responsibilities were equal to and higher than most of the American industries, we thought that there had come a time in which the emphasis on small loans could be shifted. I want to mark that particular point, because

there has been confusion about the Sage Foundation and the small loan business. Too often it has looked as if the Sage Foundation and the small loan business might have stemmed from the same general body, and of course it was to the advantage of those who are opposed to small loan legislation to magnify that as much as they could. There has never been a time in which the Sage Foundation has not wanted to work within the existing frame-work of free enterprise and capitalistic venture, ever striving to bring about the kind of business service in this field through business agencies rather than from the angle of state subsidies, state socialism or anything like that. In all our pamphleteering and all of our appearances before legislatures there has always been that emphasis, and that emphasis still is there, mainly I think because very gratifyingly the corporations that came into this business and those that remained in this business met the test pretty well. I had an opportunity under N.R.A. to see what the code of ethics is in practically all American business. I can say unqualifiedly particularly from my close association with the lending business that if anything the lending companies exceeded American business generally. They had found probably that it was good business, and they had found they were under a stricter pressure. They were under almost constant legislature restriction of course, because of their high rate, and if I say so, I do not believe that they ought ever to get to the place where the public official takes his finger very far away from their neck. I think that is a very good thing.

Well, then, the trend of emphasis was very definitely to administrative control. There has been a large development in the United States, as you probably know, towards administrative law due to complex conditions and due to the fact that the general principles no longer are able to be used for ordinary executive administration; and our emphasis is very decidedly shifted. In our sixth draft we shifted very definitely towards an increase in the powers of the state supervisor. We shifted to a demand for official responsibility, because we found that if the amount invested was too small there was a pressure towards unfair practices. We wanted to establish what amounted to a certificate of convenience and necessity of the community before a small loan agency would be permitted in a community; and I think our New York experience has been very very helpful, because by putting the responsibility in the banking department for small loans—

Hon. Mr. DUNNING: The state banking department?

The WITNESS: Yes, the state banking department. Then when they took up the question of a certificate of necessity and convenience for the community they did it with very very high standard rather than as to whether it was an outlet for somebody to make some money; and also as to the character of the applicant who was at the door asking for a licence. In addition to that we went into a wide reporting system, and I have brought, for the purposes of the committee, from the Sage Foundation several copies of a suggested report which most American states having uniform laws now employ. It will give you an idea of how vigorously we have tried to pursue the elusive question which accountants ordinarily cover up as to what earnings and costs are. And again, the desirability of a state supervisor getting reports which are available for comparison year by year within his own jurisdiction, and for comparison as against other jurisdictions, and for reference by means of specific data on offices, which we have also urged. That to my mind has been one of the best things towards driving the rate to that rate which is economically necessary for carrying on the business.

Now, we have relied on three things for competition: One has been the competition as between the licensees, and while I never as director fomented inter-company disputes I never took a pessimistic viewpoint if one of the

corporations and another one were to get into some sort of competition which led to betterment of borrowers' rates and protection. There was the competition of other alternative sources of lendings, such as the Morris Plan companies—which are of the Taxative character—and then the personal loan departments of banks became quite competitive. There were also the credit unions and other agencies. But we relied also on the supervising agencies' regulations of putting a burden on the lender to meet the terms which they thought necessary. That is, we felt that you could be crowding the maximum rate down to a lower level constantly, that you could shift the burden to the strongest member of the contracted relationship to find a means of doing business and of making a profit; and that has worked out very well. I can recall that when I first came to the Foundation it was assumed that 3·5 per cent would always remain the rate even if you got cheaper money and cheaper loan bank methods like that; and it is very gratifying to know that that rate has been reduced by them voluntarily, and because of this pressure of the supervised states.

Hon. Mr. DUNNING: It has been reduced now to two and one-half per cent?

The WITNESS: It has been. I am going into a discussion of rates pretty largely.

I forgot, Mr. Chairman, to make one other statement as to myself. While in my capacity as consulting economist, and while out of government service in 1935—in fact while I was teaching at the University of Miami—I made a study for Clark—Dodge and Company, New York bankers, of one company which had applied to them for financing the Household Finance Corporation. In other words, I represented the company which was considering whether it would underwrite the issue of security for one of the leading small loan companies. In that capacity I was able to demand income tax statements from the loan company, break-downs, and accounting analyses, and things like that, that had never been freely available to me when I was with the Russell Sage Foundation. In that way I added to my knowledge tremendously. I, of course, was paid a fee by the banking house as a consulting economist. I will speak of that when I get to the rate changes.

Now, this period around the twenties with which I am more familiar saw several changes. It was to see the bank loans, and to see the companies tapping the security market. It was also a time of general endorsement by social agencies, better business bureaux, local aid societies, junior chambers of commerce, labour unions—Mr. William Green, President of the A. F. of L. has endorsed it, Governor Lowden, of Illinois, Governor, and later President Wilson; and Calvin Coolidge, as governor, had signed a small loans bill; and Franklin D. Roosevelt, Governor of New York at that time, signed a change in the New York bill that I was sponsoring at the time for the Sage Foundation. New York had had a rate which was equivalent to about 2·25 per cent over a period of something like eleven to fourteen years, and no lending of any great amount had ever gone on under that particular rate, and the loan-shark had come in and had taken the place of the lending that had been contemplated by the licensing department. Through the assistance of the banking department and our work the attorneys-general conducted a loan-shark drive, and the recommendations of the general committee did away with the difficulties and expended their loans, and the National City picked up from that. It was also recommended that the state small loan law rates be increased, which was done under the last term of the Franklin D. Roosevelt administration there. We had a new period of very fruitful experience, which was very painful for me at times because of the work it caused me. But some of the states were reducing their rates. Some of the states that were adopting the law were changing their rates, and others were almost rendering their small loan

law inoperative by a reduction to too low a rate. I was going to speak very briefly about five of them as I know them. One of them is New Hampshire, and New Hampshire reduced its rate so that practically all licensed lending left the state. New Jersey, after a violent fight in the legislature, reduced it to one and a half per cent. The lenders left the state and as a result pretty largely the business shifted into New York and Pennsylvania, particularly Pennsylvania. Later the state raised its rate to two and one-half per cent where it had been before. Wisconsin moved its rate down until I think the effective rate is about, as I recall from my Clark-Dodge study, about 2.27 per cent—it is something like that; but that gave a monopoly almost to one group. At the time I made my study between eighty-five and ninety per cent of all the business was being done by one loan company in the state. Missouri reduced its rate to below what we thought was the minimum rate, two and one-half per cent, regardless of how it were fixed; and Missouri has had a resumption of loan-shark conditions to such an extent that the attorney-general and the Better Business Bureau are moving now towards the restoration of a higher rate. The West Virginia experience was what you might call a theorist's dream. We had predicted with great brashness that if the rates were reduced from three and one-half per cent in that state, which is rather sparsely populated, licensed lending would go out and twenty per cent lending would come back, and it happened within three or four months. As I say in connection with these theorist dreams, too often your prognostications catch up with you and destroy you. This one, however, validated our general research experience and testing of these states.

Other states, however, began to adopt our six draft recommendation, which six draft recommendation was what we would call a graduated rate; and pretty generally we would allow three and a half per cent or three per cent per month on the first hundred dollars of a loan and two and one half per cent on the balance above that. That is, if a loan were for two hundred dollars, you would pay three and a half per cent on the first hundred dollars and two and a half per cent on the second hundred. When the loan was paid, you paid off the cheap money first. You paid off the two and a half per cent money first. A number of states experimented with reductions of that order and very successfully. To my mind there was no real abandonment of the service to which the borrowers are entitled.

By Mr. Martin:

Q. What was the increase in the rate in New York State under Mr. Roosevelt—from two and a half per cent to what?—A. Rather than trust my memory, I will look it up. It was to three per cent per month on the first one hundred and fifty dollars and two and a half per cent on the balance.

By Hon. Mr. Dunning:

Q. That is the present rate in New York?—A. That is the present rate in New York. I think, without making a very serious study of this, with the cheapness of funds, that rate can probably be reduced by some variation of this joint rate. The New York supervision is very, very good. Under this amended law we stiffened the penalties and lessened the possibilities of law evasion and things like that to such an extent that when Dewey was prosecuting the racketeers, he sent one hundred and forty loan sharks to Sing Sing under that law. There is a distinction between this uniform law and what are permissive rates—extra, beyond the normal legal rate—such as the credit unions, industrial banks or personal loan departments of banks enjoy. They are permissive rates granted for purposes of competition and so forth, but do not allow the state to exercise, in an administrative way, the enforcement of

the law. In a state like New Jersey or New York, the alertness of the racketeers is well known, and in the absence of anything except competition from other lending, very quickly would build up bad practices if the state supervisors did not have this weapon constantly available.

By Mr. Martin:

Q. Mr. Henderson, having stated that you think the present New York State rate could be whittled down, would you care to state what would be the minimum in the whittling down process, in your judgment?—A. I think that the \$150 limit on the three per cent rate could be brought down to \$100 and two and one half per cent on the balance, fairly easily. The costs of doing business in New York are higher than they are in other places, but I am quite sure that that could be done.

By Mr. Edwards:

Q. All charges are included in that, are they?—A. Yes. As I recall, there is no other charge.

Q. No registration fee?—A. No.

By Mr. Tucker:

Q. Is that by endorsement or a chattel mortgage?—A. No. That is mainly on the personal loan business which covers wage assignments and chattel loans.

Q. Do they not have to register the chattel mortgages?—A. No, they do not have to register. That is usually optional with the lender under this.

Q. Yes, but to protect the security I would think they would have to register the mortgages?—A. Curiously enough the mortgage—the furniture is not the lender's protection. He would go broke if it were. I came to the conclusion that the best way to beat the game, if you ever wanted to, was to find some way tapping the general flow of wages and vesting your security in the honesty of the common, ordinary person. His reliability with regard to payment and his guarantee of payment is probably the best security in the world today. Very seldom are these chattels or these mortgages ever used. I have here Illinois, and they keep a record of the suits and repossessions. They had something like 317,000 loans outstanding at the end of 1936 in the state, which would mean, roughly speaking, at least a half a million of loans had been made. They had 291 sales of chattels and 263 of them were automobiles. I mean, the use of the mortgage is at a minimum. The dependence mainly is on the fact that the person has to have the money, and is reasonably grateful to be able to borrow it in a quiet, decent, business like way; and he is very anxious to keep that credit. To my mind, it is very difficult for most of us to get down and understand the real service which a small loan company performs.

By Mr. Coldwell:

Q. May I ask you a question, Mr. Henderson? How far back do your records go with the State of Illinois? What I have in mind is that in 1936 the repossessions were very small; but in a very spectacular decline, like that of 1929, how would seizures be under those conditions?—A. As I recall, they were not very large. In fact, the American Association of Personal Finance Companies made an engagement with President Hoover, I think, which they later continued under Roosevelt, that they would examine into any threatened foreclosure and if it was unfair—if there were not elements of dishonesty on the part of the borrower and things like that,—and if there was a real lack of capacity to pay, they had a special committee to try to work it out. That

was one of the most gratifying experiences from the standpoint of the Sage Foundation of Research. That is, there was pressure on the borrower to pay, the same pressure that goes on all the time as between debtor and creditor; and perhaps with the loan company they have better techniques of collecting. But it met the test. The small loan lending pretty generally met the test.

I wanted to touch on something, without being too sentimental. The thing that I have like about the Sage Foundation, before I went there, while I was there and later, is that they were realistic. They were not interested in hypothetical solutions and things like that. They wanted to see something done and done quickly today, not forty years in the future. They very seldom got sentimental about the small loan law. We felt that, entirely apart from these high questions of lofty service and ideals that business speaks about, the thing would stand on its own feet, and it did. As to the necessity of having loans, there was never any doubt in our minds. Each succeeding year of research convinced us that consumer credit,—the necessities for borrowing—were increasing, that in the absence of a decent place to which borrowers could and would go, you would compound the distress, and that the service which the lender rendered in a business-like way was far in excess of what was ordinarily realized. As a result, we maintained our position on the flat rate. We defended the lender. We kept on with the research. It would have been easy at times for the Sage Foundation to drop this thing and say, "we have done all we could do." But they kept on because they really believed in it.

By Hon. Mr. Dunning:

Q. Might I ask you a question just here, Mr. Henderson? The trend of your experience would appear to indicate that you believe that regulation of the loan shark by criminal law is not really effective; that, in fact, regulated competition with the loan shark is much more effective? Have I gathered your thought correctly?—A. Absolutely.

Q. Why is it that the criminal law is ineffective? It is a crime to charge the twenty per cent rate, I suppose, even in Wisconsin. Out in Minnesota, it is a criminal practice, is it not, to charge this?—A. Not in some states if it is expressed in certain ways; but in many states it is a criminal practice, yes.

Q. Just why is the criminal law not effective?—A. The main thing is that the borrower needed the money in the first place. That is the reason why the borrower seldom undertakes to prosecute a loan shark. The second is that under an illegal business, there are all types of concealment. The third thing is that you have got to go to court, which costs money, and very often the courts do not understand as well as the supervisor gets to understand.

May I go back to my first contention. It is because, regardless of that high rate, the borrower who needed the money desperately in many cases feels that he made the contact and he got the money—what is it our President, Calvin Coolidge, said—"They hired the money, did they not?" He was speaking of war debts. I have interviewed literally hundreds—probably thousands—of borrowers; but until the loan shark gets into racketeering, very seldom is there an outcry.

Q. You spoke of a drive being made by the Attorney-General?—A. Yes.

Q. Just what does that mean?—A. The Attorney-General in the State of New York invited the borrowers who were being fleeced to send their complaints to him. We were working with him behind the scenes, somewhat. We supplied the technique. I might as well say that. There had come, from out of the unorganized territory in the south, chain loan shark groups that established what we call salary buying companies, twenty per cent per month companies,

all along the New York Central lines and so forth. One company had gotten in high as \$128,000 out of the city.

Q. At 20 per cent a month?—A. Yes, at 20 per cent a month. From a net investment of about \$16,000 they ran it up until it stood at about \$128,000 and their net income per month was nearly what their investment was. You can have a drive against that, but if you do not have alternative sources, they come right back.

MR. FINLAYSON: Were the regulated companies doing business in those districts?

THE WITNESS: No; that was in 1928 before the small loan law was changed. The loan shark business as generally practised has escaped the sporadic drives because—I do not know why I should not say it—next to the politicians they are the smartest understanders of human beings that I know of. They always get out in a place where they do not get blind red action against them.

But if the racketeer comes in, that is, of a criminal instinct rather than just an off-colour bootleg kind of fellow, then it is very difficult to get to him under the criminal law unless you have a long campaign by a very intelligent supervisor with some help. The law will not keep the racketeer from trying something, because he will use force.

HON. MR. DUNNING: There are all shades in criminology, really.

THE WITNESS: In New York we had a lot of automobile lending, and there they would go out and bump a fellow on the head and take his car from him if he did not keep up his payments.

MR. TUCKER: Where was that, in New York?

THE WITNESS: Yes; in 1928 and even recently.

MR. TUCKER: One of the things you mentioned was this: You said that in New York, coincident with a change in the rates, steps were taken whereby over one hundred people were sent to jail. At that time there were these legitimate companies operating in the States, but apparently as you state, they were forced to operate at a lower rate and they were willing to do business. You said coincident with your raising of the rates under the administration of F. D. Roosevelt you actually made a drive against the loan sharks.

THE WITNESS: Pardon me. The first drive was in 1928; the law was amended in 1930. In 1935 the racketeering ring in New York got into the loan shark business, particularly on automobile loans rather than small family loans and built up a very terrifying business. But Dewey struck it down by using the penal features of the law as amended in 1930. So there were two drives.

MR. TUCKER: Then was it the drive in 1930 or the one more recently in 1935; which did you say?

THE WITNESS: 1936 and 1937.

THE CHAIRMAN: Mr. Tucker, the people in the rear of the room are trying to hear you but can not. I think you had better speak a little louder.

MR. TUCKER: What I had in mind was this: I take it that after the bill was passed by the Roosevelt administration in New York these companies were operating thereunder, still the loan sharks entered the field?

THE WITNESS: That is right.

MR. TUCKER: And it was then necessary to crack down on them very drastically by criminal law?

THE WITNESS: That is right.

MR. TUCKER: Does that not indicate, then, that when they enter the field even at this rate there is the type of borrower that the legitimate companies will not lend money to, and that you are, after all, only covering part of the field. If it is necessary to cover the field with the criminal law, why can you

not cover a wider area than you are trying to cover? You have got to cover it anyway to protect certain people from racketeering practices, so why can you not cover it in regard to people who legitimately borrow and who do pay back—people to whom legitimate companies will loan money?

The WITNESS: Most of this lending racket that Dewey broke up was in New York city. It was in connection with automobile loans rather than with what we call family loans or the usual loans made by the licensed loan companies. A lot of those loans were made ignorantly; that is, the borrower does not know the difference between a licensed lender and a non-licensed one. These racketeers had pluggers and cards and solicitors—all the trappings and pull-in stuff that the old loan sharks had, and once in, he was pretty tightly held. Now that was being done, as I say by a criminal class, a racketeer class tied right in with the big ring in New York. And that thing cannot, in my opinion, either be stamped out by competitive lending—I make no claim here as I want to be very careful on this point. You can have thirty million dollars out by the National City Bank in small loans, you can have fifteen millions dollars out by the credit unions, and you can have three or four millions out by the personal loan companies, and in a large city the size of New York, you can still have that kind of viciousness. There is no way, Mr. Tucker, of meeting a doctor's bill by the criminal law. That is the reason for small loan licensees. You can make usury a high crime—flogging, or death to the lender and borrower both, but that will not meet the needs and the demands that come from emergencies that spring up in the low income group.

Mr. TUCKER: But if you have got to send people to Sing-Sing, as you say, even though you provide these facilities, then the actual borrowing of the money at these high rates of interest does not arise out of the needs of the borrower but out of the activities of the lender; otherwise, if these people could get money at cheaper rates you would think they would get it and not go to the loan sharks. Why is it necessary to have the criminal law on top of that and send people to Sing-Sing? It must be that it does not arise out of the necessity of the borrower so much as it arises out of the tactics of the lender.

Mr. EDWARDS: It strikes me that it does arise out of the necessity of the borrower rather than out of the activities of the lender.

Mr. TUCKER: Then these companies cannot be covering the field.

The WITNESS: The small loan companies, licensed companies, do not cover by any means the entire field and the demand for loans. There is no question about that. We used to have at my office a constant stream of people coming in for whom there was no agency available that could loan to them, I mean, at the ordinary going rate, as the risk was entirely too great.

Mr. TUCKER: But these companies only cover the people who are able to pay, who are good risks, but the person who is a doubtful risk is not helped by this legislation at all.

The WITNESS: I would not agree. It depends on what you mean by a good risk. You mean a good bank risk? No. The man who comes to the personal finance company usually is a fellow who cannot satisfy the requirements of the bank or a credit man or who has not immediately available two endorsers to stand good for him, or who has not any jewellery which he can hypothecate with a pawn broker. All that he has got usually is a reputation in the community of meeting his debts when he can, paying his bills, and who has reasonable prospects of employment. Now that fellow is a good risk for a licensed company at the rate they charge. You get beyond him into the type of fellow who has no job, who has nothing on which anybody would make him a loan, and then they can get a tremendous high return from him very quickly, and exercise some kind of terror on him usually, causing him to lose

a job, or something like that, or take a wage assignment. Under this law we pretty generally limited the use of wage assignments, so that the borrower's job is not put in jeopardy by applying for a loan. There is that group, and if you did not have the licensed lenders, however, then the hundreds of thousands of borrowers who do go would go as they do in Minnesota only to the high rate lenders. There are in Minnesota right now probably 65 per cent—I think at one time it was 70 per cent—of persons who would be good risks for licensed loan companies. I had an opportunity to check one time as to the type of customer who went to the loan sharks' office. We found some records in a raid and I made an analysis of the line of credit there, and I thought that about 70 per cent of them would be good risks for licensed loan companies at probably one-seventh of the rate that was charged. A lot of those cases are gambling cases. A lot of them are cases where men borrow without their wives knowing anything about it. A lot of them were cases where they already had loans with other agencies which they were not paying.

Mr. TUCKER: I will tell you one of the things that bothers me. I do not know whether you considered it at all. These people who borrow at rates of 2½ and 3 per cent, according to the records of the companies, pay the money back and the interest just as well as people who make large loans under our regular banking system. The question that bothers me is this: We have given the banking system certain rights to expend credit roughly ten to one against their cash reserves and so on, in order that they will be able to make credit available cheaply to the wealthier members of the community. If they did not have that right to furnish and expand credit, and so on, if they had to lend the actual money, they could not lend it as cheaply as they do. If we set up a banking system that enables the wealthier members of the community to borrow money, by virtue of being able to expand credit in that way, have we not got some obligation to make credit available cheaply to the poorer people? In this regard we have simply got to say this is the rate that is necessary without giving them any rights such as the banks have to loan money to the wealthier members of the community.

Mr. EDWARDS: Why say "wealthier"?

Mr. TUCKER: It is the wealthier members—

The CHAIRMAN: Gentlemen, I would suggest that Mr. Henderson be allowed to finish his statement.

The WITNESS: I would like to answer. I have probably worried more hours about it than you have, Mr. Taylor.

Mr. TUCKER: I would like to hear you.

The WITNESS: My feelings on the question of the banking system are not perfect, but I have always felt, or at least the Sage Foundation has always felt, that there was a much larger area in consumer credit that the banks could satisfy than they are presently satisfying. How far that could go I am not quite sure, because of the fact that it is the depositor's money. That is the key question. It is not money put at risk for the purpose of gain. That, Mr. Minister, is the essential difference. We have had a tendency in the United States, as you know, to encourage personal loan departments of banks that will make loans on three-name paper—two endorsers. The federal reserve system has been giving increasing attention towards making paper arising out of a consumer credit transactions available for discount with the idea that a saving would be passed on. Now there is somewhere a limit to which the banking system can go, but they have not anywhere near probed that limit yet. The Russell Sage Foundation never thought that the banking system, the philanthropic companies or the co-operative credit societies could ever absorb the entire field, and we were not, as I say, willing to wait as enthusiasts of the

credit union would have liked us to have done until the banks did that. There were before us hundreds of thousands of people right then paying twenty per cent a month and becoming charges on society, something adding to the welfare burden.

Now, I believe that what you will eventually need to come to—and I think Canada can profit by our experience mainly—is to catch this thing early and provide some help to your credit unions. I have always felt that if the Canadian government had helped Alphonse Desjardins when he started and took up the idea you would have had a much better rural credit system than the one you have to-day, and you would have had a lot of avoidance of the pressure that you now have. I believe your banking system could go a certain distance, limited always by the thing which is the strength of your banking system, and that is the availability of depositors money on demand. I believe that you could avoid the excesses of hire-purchase instalment selling if the supervising agencies before us are expanded so that they would include money for research and observance of recommendations to parliament. I think very definitely that anything you can do towards getting uniformity in regulations through a dominion law is well worth while, particularly to avoid any possibility of the chain loan shark methods, which was one of the toughest things we had to avoid, because they bring to this interest field ingenuity, money, and a tremendous amount of bribery and extraordinary legal talent and so on; so much so, that they become a social sore. I believe you are moving in the right direction but I would rather think, Mr. Tucker, that here you would probably move in two directions: first get general oversight over the whole field of consumer credit through the state agency; and secondly have a prompt set-up of the commercial agencies on a basis that would have a clear right to forbid overcharges and outline the security and flexibility that is desired when you talk of competitive bases, and lay down the rate under which the business can operate. That is the highest form of a democratic competitive system, competition on the rates that are set down.

Hon. Mr. DUNNING: You appreciate our jurisdictional difficulties?

The WITNESS: I appreciate that.

Hon. Mr. DUNNING: In the hire-purchase field with respect to the property and civil rights, etc.

The WITNESS: I have been through it, and went through it some years ago. I have been trying to keep away from things on which I am stale.

Hon. Mr. DUNNING: Property and civil rights is within the competence of the province when the transaction is one wholly within the province. That is a difficulty we come up against.

The WITNESS: We had similar difficulties, Mr. Minister, in which I had to make up my own mind. I had to make up my mind first of all as to what was interest and what was not interest and whether a thing was a loan or whether it was not. We came to the conclusion that—we used to say if you are going along the street and a flower pot falls down and hits you on the head the cut is just as bad, whether it was an accident or whether somebody threw it. Now, from the standpoint of the borrower, regardless of these fine-spun legalistic distinctions—and I indicate my bias against the legal profession here—

Hon. Mr. DUNNING: Mr. Tucker is a lawyer, so you had better be careful.

The WITNESS: It is a cost to the borrower and a diminution of his ability to live a more decent and wider life. We made up our minds that so far as possible we would cut straight across these things.

Hon. Mr. DUNNING: You were dealing in the United States with individual states.

The WITNESS: Yes, but also with state laws and precedent decisions as to whether the thing was purchase wages or not. The loan sharks had already got in there and had obtained a decision from the state supreme court with regard to a certain transaction on an agreed set of facts. When we found that we decided we would break it, because we knew in a multiplicity of the contracts that were taking place there were pretended loans.

Hon. Mr. DUNNING: You always knew the state legislature was supreme?

The WITNESS: Well, after we had been to the Supreme Court three times and they refused to take jurisdiction, I believe we did.

Mr. MARTIN: I just want to follow up something that Mr. Tucker has raised in connection with loans made by banks. Having in mind your experience with the National City Bank of New York, is there any class in the state of New York that the National City Bank cannot reach in respect of small loans, and if there is would you mind explaining it?

The WITNESS: Well, the National City bank type of loaning is usually for higher amounts than the average borrower borrows from the small loan companies, and there is a requirement of two endorsers. The average householder has great difficulty and has a certain reluctance in satisfying these requirements, since the amount does not warrant all that trouble. Sometimes a man who might by scurrying around to get the endorsers prefers to go to a pawnbroker or a small loan company for his credit. In the main where you have credit unions and a personal loan department of banks, personal finance companies and such a wide luxuriant growth of instalment selling, your borrower tends to pick the one which is available and with which he is familiar. He tends to go down the line as to his class of credit risk.

Mr. DONNELLY: You have a fixed rate of interest in the banks that the banks cannot go beyond?

The WITNESS: In New York state, yes.

Mr. DONNELLY: What is that?

The WITNESS: I think it is six per cent discount repayable by instalments. Limitation, with certain minor fees. The National State bank cost of lending is among the cheapest that there is. There is an awful lot of small businessman's loaning that goes on with the National City bank in which a businessman with no established line of credit does not have to maintain compensating balances and is under caution to pay out of his weekly receipts, rather than a straight out-and-out consumer purchasing.

Mr. MARTIN: That would not come under personal loan companies?

The WITNESS: No, they are under a separate statute.

Hon. Mr. DUNNING: Under the banking department.

The WITNESS: Under the banking department. But at the risk of being wearisome I should like to emphasize the high desirability of state supervision of the bank department. Once that business started to assume large proportions they went into the legislature and asked for special legislation because of the peculiar character of the consuming credit that segregated it from the ordinary banking credit. That is, they recognized—the alert banking department—that this was something where there were other tests to be applied and that the borrower ought to have other guarantees.

Mr. TUCKER: Our banking system grew up to finance production, and as you point out now there is a tendency for wealth to confine itself in positions where it is not immediately available for purchasing power, and the result is that there is an apparent lack of purchasing power through that maldistribution of wealth, you might say. Now, it is very important that if a system is to function at all there should be a corresponding building up of the system to finance purchasing

power as we have built up the banking system to finance producing power. Are we not simply trying to attack this thing in a make-shift way? Are we not failing to go to the root of the problem? Should we not go to the assistance of the banking system so that they may be able to finance purchasing power the same way as they are financing producing power? We have given the banks in this country the right to loan on a ten to one basis, expand their credit to that extent; if they had not that they could not give credit at the rate that they do now. Should not we give the same privileges to society in order to finance consumption?

The WITNESS: That is right. I hope that is what I have been saying. I want to go further back. If you want to go to the root, I think the root is the maldistribution of income of most of the extra-legal borrowers.

Mr. TUCKER: What I am getting at is this: you are financing production. Our big producing concerns in this country pay five and six per cent. Now, there are people who get credit to that extent because we have set up a banking system which gives the banks the rights to expand their credit. Can we hope, on the other hand, and is it fair to expect people who are going to do the buying to pay as high as thirty per cent, because we have refused to give the same rights to society to expand its credit to finance purchasing power as we have given the banks? In other words, can you finance producing power at five per cent and hope to balance it by consumer power at a rate of thirty or forty per cent?

The WITNESS: Well, in the first place, I do not think that they are opposable at all. In the second place, the financing of production is less many, many times the financing of consumption. I think there are things inherent in the nature of the risk and the cost, particularly, of doing business which makes the higher rate on the consumption side absolutely necessary. The actual cost in dollars of loaning in small amounts was double and treble the whole interest return of the producer's notes, most of which is pure interest; that is, a reward paid for the use of funds. It is the cost, the actual cost. There would be very little. You could multiply the ratio probably one hundred to one, if you wanted to, rather than ten to one, for the same amount of credit and you still could not get away from the fact that to send a clerk out to investigate the ability of a worker to pay will cost you a certain amount. It will also cost you when collecting that money in small amounts. Every time that you make an entry is costly. That probably will run around one and one-half per cent a month for actual pocket outlay. What makes the rate seem so high, Mr. Tucker, is because these charges are applied against such small amounts of money.

Mr. TUCKER: It would be higher if it were applied against a larger amount of money.

The WITNESS: No.

Mr. TUCKER: Is not the reason that the banks loan money so cheaply due to the fact that they get the funds they loan so cheaply; and the banks loan their money to protective enterprises. If they had to get their money in the same way as the small loan companies do, in other words, if they had to pay 6 per cent for it, they would not be able to loan at 6 per cent or 5 per cent.

The WITNESS: There is another factor which enters in there, and that is that with these loans in large amounts the cost of investigating the borrower is less.

Some Hon. MEMBERS: Hear, hear.

The WITNESS: There is another factor which enters in there, and that is is usually of a character that can be transferred; and then they also have this ten to one ratio. But, outside of the cost factor as applied against the average

size of the loan, there is no way, in my opinion, even if you multiplied the rate of expansion up to one hundred to one, that you could get it down to a comparable ratio. •

Mr. TUCKER: I do not see this—

Hon. Mr. DUNNING: Mr. Chairman, a question is one thing. Mr. Tucker is a lawyer. We ought surely to accord some courtesy to the gentleman who is making the statement.

Mr. TUCKER: I did not want to interrupt. I want to get all I can from this witness, but I think it would be hardly fair for me to interrupt.

Hon. Mr. DUNNING: We want to get on.

Mr. TUCKER: There is just one other question I wanted to ask. The point I wanted to make is this: I suggest that the cost of credit to the small loan company by the state is made much higher than it is to the commercial bank; is it not fair to say that if you gave the same consideration to a system whereby we might make the cost of credit to the small loans companies somewhat the same as the cost of credit to the commercial banking system it would benefit the borrowers?

The WITNESS: Let me answer that in this way: I believe that if deposit money were available for small loans there could be a reduction in the cost of loans to customers. I do not believe that even if they got their money for nothing you could hope to approach the banking rate of interest for consumers, and the result of that would be that you would have to have an extra legal rate. But more important than anything else to my mind is not the rate as between the two fields so much as it is the factor of state supervision over that entire field. That saves more for borrowers than any difference in the small loan rate. That is why the English thought proper before they began to determine what is an unconscionable rate to provide for about four per cent a month, and so forth. They have a different attitude entirely. We dealt with the matter differently. We have never felt that the rate was half so important as the surrounding conditions for the protection of consumers.

Mr. DONNELLY: Do you not find that when you push the rate down you narrow your field of loans?

The WITNESS: Yes, very definitely. As your average loan goes up it excludes the more necessitous borrower. The state could I believe after a period practically decide which class of borrower will be served by the way it pitches its maximum rate, and its burden of rate. It can do that if it wants to.

Mr. COLDWELL: Don't you think that the growth of large accumulation of wealth by individuals would be a factor in driving down rates in the future?

The WITNESS: You mean, in small loans?

Mr. COLDWELL: Yes.

The WITNESS: The thing which it tends to do is to make more funds available for open credit.

Mr. COLDWELL: You say it makes more funds available for open credit?

The WITNESS: That has been the experience.

Mr. COLDWELL: If this credit is not being taken up it will seek a new field, will it not?

The WITNESS: Yes.

Mr. COLDWELL: Is not this one of the fields it would seek?

The WITNESS: This is one of them, yes; but it is more likely to enter into the competitive field for established securities, driving your security rates up.

Mr. MARTIN: Most of your remarks have been confined to the United States. Has the Russell Sage Foundation covered other countries as well?

The WITNESS: We made a special study of the British situation, and I am leaving with your chairman a copy of "Money Lending in Great Britain," a report that we have made. Then, we have kept track of the trend in Australia, New Zealand, in the Strait Settlements, in India, Assam, South Africa and West Africa. We have kept up as closely as we could with other countries, but we have specialized more in co-operative banking arrangements there. One thing we noted was pretty general. In the Commonwealth they have been tending toward the requirement of the borrower getting a legal statement; that he have a book of some kind, with a contract, to be available, to be open if it were a case of hardship or unconscionable rate. There has been a tendency to limit, as in Tasmania. Tasmania used to have a rate of 100 per cent. It is down to 50 per cent now, as I recall. There is a tendency in Great Britain—all the small loans do not pay much attention to the 40 per cent determinative. However, the significant thing from our experience with respect to Tasmania is that they are borrowing and moving towards more protection to the borrower through the state.

Hon. Mr. DUNNING: In Great Britain it is only operative through the courts, isn't it?

The WITNESS: Yes.

Hon. Mr. DUNNING: It is determined in each individual case.

The WITNESS: That is right.

Hon. Mr. DUNNING: And "unconscionable" does not come into it at all until it exceeds four per cent a month.

The WITNESS: That is it.

Mr. COLDWELL: How long is Mr. Henderson going to be with us, because we want to hear as much from him as we can?

Hon. Mr. DUNNING: I would like to see him have an opportunity to finish his statement.

The WITNESS: I have practically finished. I had a peroration about the general desirability for supervision.

The CHAIRMAN: Mr. Henderson would you like to get away this afternoon?

Mr. PLAXTON: Perhaps I could direct one question which would bring Mr. Henderson's remarks to a head. What scale of rates does the Russell Sage Foundation now recommend; and to what brackets of loans are they applicable?

The WITNESS: I think in a new community in our state (New York State) the Sage Foundation would recommend about three per cent on the first hundred dollars of a loan, and two and one-half per cent for all amounts above that.

Mr. DONNELLY: You are very strongly in favour of state supervision?

The WITNESS: Yes. Again I would say that the nature of the Act and the character of the supervision is much more important. We have had more gains from the work which the state supervisors have been doing in their own jurisdiction by exchanges through their own association than through any other single factor, outside of the compelling character of competition in recent years. The state reports that I went over in the last few days show that very very thoroughly.

Mr. HOWARD: You stated a few moments ago that you thought one of the best suggestions was to have a certificate of necessity; who could give that?

The WITNESS: The state supervisor. We had in mind something of the Oklahoma Ice case, in which a dissenting opinion was given by Mr. Justice Brandies. When you come to a place where extra units really do not add to the convenience of the community the community really ought to have something to say about it.

Mr. TUCKER: What time do you wish to leave this afternoon?

The WITNESS: I wanted to get a train so as to get back into New York to-night.

Hon. Mr. DUNNING: Then, you could get a train at 5.55 out of Montreal which would get you into New York City to-morrow morning.

The CHAIRMAN: The minister has pointed out that to-day is private members day and suggests that we might have difficulty in getting a quorum. Is it your pleasure that we should meet this afternoon?

Some Hon. MEMBERS: Yes.

The CHAIRMAN: Then, unless Mr. Henderson might like a little relaxation—

The WITNESS: Oh, no; this is meat and drink for me.

Hon. Mr. DUNNING: Before we adjourn I would like Mr. Henderson to think if he can of one thing before we meet again, and that is the relationship of our essential differences to the systems he has been discussing, the main essential being that this is a national parliament attempting to secure national control over this business but complicated by the fact that the provinces, which correspond to your states, have certain constitutional powers not yet clearly defined by judicial decision in relation to this problem. I am thinking not of asking you questions relating to jurisdiction, Mr. Henderson, but that you should turn over in your mind what these differences apparently are, and the necessary qualifications which would be introduced by the known differences in your suggested techniques of control. For instance, just to illustrate if I may. You mentioned the desirability of extending this field into what is now one of the biggest aspects of it; that is, the hire purchase—the automobile loans, the refrigerator loans, and all the rest of it. Of course, this is a national parliament in Canada trying to deal with a problem. Wherever chattel security is taken, as in the case of automobiles and refrigerators and all that type of credit, that is within provincial jurisdiction.

Mr. EDWARDS: Are not all of these provinces in union with the federal government, Mr. Dunning?

Hon. Mr. DUNNING: Well, I have not found complete unanimity. If you could give some reflection to that we are anxious to do something with that.

The WITNESS: I will do that.

Mr. VIEN: Have you had occasion to study the systems of legislation prevailing in countries outside of the United States and Great Britain—for instance, France or Germany or other civilized countries?

The WITNESS: Not to any extent to present any definite information. The German small loan system revolved mainly around the two great systems of credit unions, and outside of that there was the usual loan shark and the pawn broker. In France there has been a great reliance on the pawn broker and the credit societies, and there has been very little regulation of the so-called industrial money lender.

Mr. VIEN: Are you familiar with the rates of interest in these countries, the maximum rates, if any?

The WITNESS: No.

Mr. MARTIN: In those states where the uniform law prevails, what is the lowest rate? $2\frac{1}{4}$ per cent, is it not?

The WITNESS: The lowest operating rate, and I mean by that where there is licensed lending, is about $2\frac{1}{2}$ per cent, except for Wisconsin. Wisconsin has a rate of $2\frac{1}{2}$ per cent on the first \$100, 2 per cent on the second \$100 and 1 per cent on the remainder. 90 per cent of the business is done by one

company, and the average rate is 2.28 and 2.30. It is a little bit above $2\frac{1}{2}$ per cent. But pretty generally you can say that any rate below $2\frac{1}{2}$ per cent, under uniform law, gives only a very, very highly specialized loan service.

Mr. MARTIN: Below?

The WITNESS: Yes.

Mr. PLAXTON: Does that invite the loan sharks?

The WITNESS: It does. In connection with Missouri, the Sage Foundation showed me correspondence that they had received recently from the attorney-general, the Bar Association, the Better Business Bureaux and a number of other quasi public agencies, to the effect that they were seriously bothered by the high rate lender, and that the companies that were licensed were selecting their risks to such an extent that they did not get what they had been getting under the old system. Now, Missouri is traditionally a very, very bad state for loan sharks because, frankly, there has been a tie-up between the political machine and the loan shark gangsters for some time and it never has been adequately cleaned up.

Mr. PLAXTON: Would it be fair to assume that if we drove the rates down to Wisconsin levels it might result, first, in a monopoly here in Canada, and, secondly, give encouragement to the development of the loan shark business?

The WITNESS: Separating your propositions, I think if you did put your rate at the Wisconsin rate you would have a tendency towards concentration of the business, and I think you would have recurring trouble with high rate lenders.

Mr. McGEER: What is the situation in Wisconsin now as a result of that?

The WITNESS: The situation was pretty fair the last I knew about it. There is an alertness on the part of the Wisconsin authorities that you do not have in some of the other communities. Wisconsin is, as you probably know, Mr. Chairman, a state like Massachusetts which has been very, very alert as to the rights of the public. There is some high rate lending, but it is not of tremendous importance there.

Mr. COLDWELL: What factor are the credit unions in Wisconsin?

The WITNESS: The credit unions are quite a factor because there is decided encouragement by the state, and, in addition, Wisconsin is one of the two states that has moved on instalment credit to bring it within regulation, and they have general supervision over automobile instalment financing. I think, Mr. Coldwell, that encouragement of the credit unions has been very, very helpful there, plus the fact that the United States government has had a very definite policy for encouraging national credit unions, and there has been a sympathetic reception of the federal government's activities in general to credit unions in Wisconsin.

Mr. TUCKER: That is, they had paid organizers both by the state and by the federal government?

The WITNESS: Yes.

Mr. McGEER: What is the population of Wisconsin?

The WITNESS: I do not know.

Mr. COLDWELL: It is a thickly populated state.

Mr. McGEER: The question I asked before was, what are the provisions as to supervision as to money lending activities in the state of Wisconsin.

The WITNESS: As I recall, and I am a little bit rusty, it is in the same Commission that administers the utility in railroads and banks. Do you know, Mr. Finlayson?

Mr. FINLAYSON: I think that is right.

The WITNESS: It is a very high type of commission, Mr. McGeer, and a very alert one, too. Organized lending business had some difficulty in getting started there despite the fact that one of the biggest loan shark chains had its office there.

Mr. McGEER: They have, I take it, power to step in and investigate the books of anybody engaged in the business of money lending?

The WITNESS: Yes.

Mr. McGEER: And you would consider that an essential factor in the supervision of money lending? You have noticed that in our Money Lenders' Act we have no such powers at all. There are really no supervisory powers here at the present moment, unless there is a violation of the Act itself when a charge can then be laid under the Code. Even then there is no power to investigate what is going on outside of a specific charge being laid. You recognize that as a hopeless situation as far as supervision is concerned?

Mr. QUELCH: Should not the rate of interest on renewals be lower than the rate charged on new loans in view of the fact that the cost of the investment has already been met?

The WITNESS: There is quite a dispute about that and, frankly, Mr. Quelch, I am not prepared to say. On a small loan, if it is repaid very quickly, the costs are not covered. We have preferred to look at the general matter of lending rather than at the specific and individual transaction. We have tried to provide as wide a line as possible for free operation under the law and still give intensive regulation in the interests of the borrower. I cannot give you a very satisfactory answer to that.

Mr. DONNELLY: If a man is not able to pay a small loan the risk could not have been so good as you thought it was.

The CHAIRMAN: Mr. Kinley was asking a question and was interrupted.

By Mr. Kinley:

Q. You think that the chartered banks in the United States cover a larger field of loaning than do the Canadian banks? I understand the chartered banks in the United States loan money on real estate and take securities. They are not allowed to do that in Canada.—A. Well, they did.

Q. And came to grief?—A. Their experience with that kind of security has been unfortunate, I would say. If you do not mind I would rather we did not get into a discussion on the relative merits of the American and the Canadian banking system except to say that I am a great admirer of your system as against ours.

Q. I was trying to establish that there might be a greater need for loan companies by reason of the fact that your banks are more local than ours and make loans that our banks are not allowed to make in this country.—A. I could not pass on that. If I might make one statement on that, I should say I think there is some gain very definitely in not having a plethora of loan agencies because it gets to a place where the lender has got to make money and has to have his money out and there is an encouragement for credit that we have always frowned on.

Q. Your idea is the banks should get away from that kind of business?—A. No. Our idea very definitely is that the banks or credit unions ought to get every bit of the business that they can. I am glad that you brought that out because I want to make it very, very clear. The Russell Sage Foundation has always felt, as I said this morning, that there was a wider area for the banks on consumer credit and that the banks generally had not pre-empted that area yet. We have always hoped that they would go into it much further.

When the national city system was set up we spent a tremendous amount of time working upon that, based upon what has been the deterrent in schemes for consumer borrowers, and gave a great deal of encouragement to it. With regard to credit unions, we feel that the area ought certainly to be extended.

Q. By the banking field?—A. Yes.

By Mr. Tucker:

Q. The question I should like to ask is this: I have grave doubts about the real value of credit at such high interest rates, if the persons getting it are permanently turning over part of their salary to the people who are giving them the use of the credit indefinitely. I was just wondering if your Foundation has made any investigations as to the extent to which once these people make loans at these rates of interest they continue to owe some small loan company permanently the same amount of money. That is, they may have one company who they will borrow from and then they will go to another company to obtain money to pay the company from whom they borrowed in the first instance, and so on. I was wondering to what extent these loans are really loans that are paid for and to what extent the person, once he gets a loan from these small companies, thereafter permanently contributes to the exchequer of the small loan companies?—A. Well, the federal government has just finished a study of the income and disbursements of the largest sample that was ever taken on an absolute income and outgo basis. It shows the general annual income varying in different states, and that anywhere from twenty to thirty per cent of all families are compelled to spend more money in a year than they earn. In other words the balancing of the budget does not go on in a large number of families, because of the high cost of medical attention, legal needs, intermittent employment, and the fact that money comes in in dribbles and there are substantial expenditures to be met.

The small loan company is the residuary legatee of all of the difficulties in meeting the budget that many many families have. The small loan company is the company that lends the cash, and cash is the solvent for many of the difficulties. It inherits, for example, the difficulty of balancing a budget when a car or a refrigerator or some other physical item sold on instalment credit has to be met or the loss of the particular goods take place.

Mr. VIEN: Repossession?

The WITNESS: Or the goods will be repossessed. There is a large amount of renewal; and we have always been uneasy about this—I speak very frankly—but we have felt very definitely that the largest part of that was not due to the drive of money lenders to keep their accounts settled, although that is always present. We have felt that the maldistribution of income, the failure of large groups of people to have enough consistently to have a decent standard of living was responsible more than these agencies, which, as I say, are the residuary legatees of a lot of the balancing troubles. For that credit they pay a very, very high cost. Let us not misunderstand that; but it is a necessary one. As you know, the Russell Sage Foundation is very close to all the charitable organizations, welfare societies and things like that, and we felt that although there was a tremendous amount of disservice done by pressure for renewals and things like that, that the absolute economy service rendered left no question about it at all.

By Mr. Tucker:

Q. If eighty or ninety per cent of the people who get these small loans to pay doctors' bills remain thereafter in the hands of small loan companies, is not there grave doubt about the value of the service rendered to that person in lending him money and he thereafter having to pay interest indefinitely on

that loan?—A. I do not think that is the picture. Certainly nothing in my experience or in the experience of the supervisors of loan companies that do the auditing and hear the complaints would lead us to believe that. If that were true, Mr. Tucker, I do not believe that the small loan law, starting at as much of a disadvantage as it has, would have ever stood all the public pressure that has been put on it. I do not feel that in these individual cities they could have obtained the support of the local aid societies, the better business bureaux, the junior chambers of commerce and the social agencies to public presentation of a case at a legislature when there is an attempt to repeal the small loan law or to modify it so that it is unworkable. That, perhaps, is the best testimony that we ever had as to that fact.

Q. Is not that the main reason why—you presented it yourself—you have these exorbitant interest rates? If you do not have them you turn the field over to racketeers whom you cannot control, to charge more, and you cannot stop their preying upon the people. Is it not something like the dope traffic? We say we cannot stop the dope traffic therefore we will let them take dope of a less vicious quality?—A. I do not accept any analogy with the dope traffic. I submit that the paying of a medical bill is not analogous with the dope traffic at all.

Q. If you do not pay the medical bill at once you can pay it by instalments just the same as you pay the small loan sharks, and you will have some money. If you do not pay these high rates of interest you will have some money to pay the next medical bill?—A. You mean you cannot pay a medical bill or a hospital bill by instalments?

Q. Yes, I can.

The CHAIRMAN: The witness has only an hour or so to catch his train.

Mr. TUCKER: I do not want to take up too much time.

Mr. McGEER: I should like to ask this question, and I will give it to you so that you can frame your answer to it. I have been asked by Mr. Walker to ask this question: What is the name of the company which you say is doing ninety per cent of the business in Wisconsin?

The WITNESS: That is the Household Finance Corporation.

By Mr. McGeer:

Q. Now, I should like to ask these three questions. You mentioned the different series of rates in the state of Wisconsin. What amounts are allowed under the law of Wisconsin?—A. I put that in the record this morning.

Q. You did not give the amounts.—A. I did.

Mr. PLAXTON: I made a note of them here.

By Mr. McGeer:

Q. Will you give them to me again?—A. Two and a half per cent on the first \$100; two per cent on the second \$100, and one per cent on the remainder.

Q. What is the remainder?—A. \$100.

Q. The limit in Wisconsin is \$300?—A. \$300.

Q. What is necessary, in your opinion, to effect a proper supervision of the administration and enforcement of that particular law?—A. That particular Wisconsin law?

Q. I took that as a sample. What I understood you to say before lunch was that the rate was not so important as the general circumstances surrounding the administration of the money lending laws.—A. What I meant by that—

Q. Will you tell us briefly what is necessary to supervise it?—A. Yes. In that statement where I said that the rate was not as important as the surrounding conditions of supervision I meant that, for example between 2½ per cent a

month and $2\frac{3}{4}$ per cent, say in New Jersey, it was very possible that $2\frac{3}{4}$ per cent with adequate supervision provided better protection for borrowers than say $2\frac{1}{2}$ or even $2\frac{1}{4}$ per cent without supervision; because it was due to the powers of the supervisor that the borrower had the ultimate of protection. Now, that requires, in my opinion, first that an applicant for a licence should have enough funds to do a reasonable volume of business. It involves a certificate of convenience and necessity to be issued by the state after an investigation of the community, and after an investigation of the character and general reputation of the applicant for the licence. It presupposes that there will be a required reporting in terms which the state will set, and not of a private accounting organization, and that the state shall have the right of audit and shall actually audit at least once a year the actual accounts at the office in which lending is taking place. As far as rates are concerned it requires that the rate shall be adequate enough so that there will not be a monopoly; so that there will be the possibility of small companies and small loan balances that would leave a service available to small communities. It requires that the rate be stated in flat terms, or without any concealment; that the borrower shall be given a full and adequate statement of what his account is; that there will be entry in ink each time there is a payment; and permission to the borrower to repay at any time that he wants to; that is, that at any time he wants to make more of a payment than he has contracted for he can do it. It supposes that the supervisor will have something mentioned before—not only the right of entry to the books, papers and records of licensees, but of any person whom he thinks ought to be brought within the terms of the law. Now that is as most lawyers would say a tremendous amount of power to be given by delegation to an administrative officer. To my mind it is of extraordinary importance because of the means and devices by which the law may be evaded. The penalties ought to be severe. In our experience there are two things which hold loan licensees to high standards: One is the fear of a loss of the principal and licences, their right to do business; and the other is the fear of jail. And, in our opinion, these penalties ought to be severe. The law ought to be comprehensive enough if possible to cover by terminology the various devices which the money lender is accustomed to employ in order to avoid proper statements. In general, those are the conditions that I feel are laid down in the last draft of the uniform law, with the emphasis very very definitely on the type of supervision provided by the state.

Q. Have you a copy of that draft uniform law?—A. Yes.

Q. Without that supervision could the licensing of companies accomplish anything?—A. It would accomplish only such service as that licensee wishes to give in the terms of his licence. It won't get to the general problem of regulation. I do not know how you can constitutionally do all these things. I think, however, you ought to be bold and try to get further than Mr. Walker intimated as possible yesterday; that is, just a regulation of interest extended as far as possible; and have in mind in whatever the drafting is as the regulation of interest things which are regulatory of the business of money lending.

Q. Would you mind indicating what states you consider have the best legal machinery for the enforcement of these regulations. Or, what group of states. I do not want you to say which is the best. I was wondering what states are really progressive in this respect?

The CHAIRMAN: Could you give us three or four?

The WITNESS: New York, New Jersey, Indiana, Ohio, Connecticut, Massachusetts—and there is no invidious comparison to be taken from the order in which I have named these states.

By Mr. Coldwell:

Q. I notice you are not including Wisconsin?—A. In the way the question was framed I would not include Wisconsin, because I am against monopoly, except it be a state monopoly; and that goes for the whole frame and reference of enterprise.

The CHAIRMAN: Mr. Kinley.

Mr. KINLEY: I think my question has been answered. I was going to ask the witness in what states they had that kind of control.

The CHAIRMAN: Mr. Martin.

By Mr. Martin:

Q. Mr. Henderson, what would you say in the light of what you have just said now about those states where regulation seems to be working out satisfactorily? In the light of that, what would you say would be the most satisfactory rate, or what would be the minimum rate from the point of view of this country that we should adopt?—A. In the first place, as I think I have indicated, I do not believe that a rate ought to be so low that it monopolizes the business, nor do I think that it should be so low that you cannot get local lenders in smaller communities. I talked this over informally with Mr. Nugent—and I am responsible for my own interpretation—and we felt that Canada probably ought to do better than we would do in the States; and we felt that probably $2\frac{1}{2}$ per cent with none of the recommendations we usually make of 3 per cent on the first hundred—we thought that $2\frac{1}{2}$ per cent flat rate ought to be fairly adequate for your needs. Particularly as you would get in some cities, I am quite sure, the larger cities, where larger loan balances are possible, a lower rate; and particularly that, on the basis of actual experience.

By Mr. Kinley:

Q. You mentioned New York; what is their rate?—A. New York is 3 per cent on the first one hundred and fifty dollars and $2\frac{1}{2}$ per cent on the remainder.

Q. For a month?—A. For a month.

Q. Is there much difference in this respect, or is it pretty well settled within the rate?—A. There is quite a large difference. The prevailing rate lending companies do not have quite such a spread as the state rates do.

Q. Do you think we should be able to figure it out on a somewhat more scientific basis?—A. I think I would prefer to reserve the term scientific for something other than that.

Q. Well, say, should we be able to plan from experience?—A. We have been acting through experience and practice. The Sage Foundation has felt that it was very valuable to them, painful at times; it pained you to see a state like New Jersey, for example, go to one and one-half per cent from three per cent, and then back to two and a half per cent. It pained you to see a state go like West Virginia from three and a half per cent flat rate, and then down to an unworkable rate, and then back to two and a half per cent. But in the end it has been very helpful.

By Mr. Coldwell:

Q. You said that provision should be made so that the borrower might repay a larger amount. Have you any regulations covering what shall be done in that event, with regard the arrangements?—A. Under the proposals in the uniform law there is no discount. The rate they have, $2\frac{1}{2}$ per cent, is paid on the amount of money used for a certain period at the end of the period. For example, if one hundred dollars is borrowed, at the end of the first month if payment is made on principal \$2.50 is paid; and then the principal payment of

\$10 was made, leaving \$90; then they run another month and the 2½ per cent is paid on the \$90. Under the uniform law, the borrower, although he may have made a contract to pay that \$100 in ten equal payments, might come in the next day and pay only one day's interest on the hundred dollars. He has the right to repay and have his interest calculated only for the number of days that it is in use.

By Mr. Vien:

Q. That is on the outstanding balance?—A. Yes.

By Mr. Coldwell:

Q. Is there any minimum charge?—A. No. However, you will understand that such cases arise very infrequently. It is not very often that a borrower in this class can take advantage of a provision of that kind by advancing a larger payment than that for which he has contracted.

By Mr. Kinley:

Q. Is there any special report on the excess profits of these companies?—A. Control over excess profits has been pretty largely due to the work of supervision and the Sage Foundation; in the first instance reducing the rate, and in the second because of competition reducing the cost of loans; and also for their own private reasons reducing rates.

Q. What would you think of a provision in the law which would say that profits over a certain amount would go to the state? Would that curb their desire to charge too much?—A. Well, you mean profits of any one lender?

Q. No, of all such companies?—A. Well, suppose you and I each charged the maximum rate and I am a more efficient lender than you are; you want to pay the results of my efficiency to the state.

By Mr. Tucker:

Q. You spoke about the Provident Loan Society of New York, a semi-philanthropic institution. What rates do they charge?—A. they have a variant rate. It runs something like one per cent a month, as I recall it, but they have made some special reductions also. The Provident loans are on pawnbroking security entirely. The Provident Loan Society of New York loans on watches, jewelry and things which are actually delivered and put into its vaults. It is a pawnbroking business.

Mr. BAKER: That is different.

The WITNESS: They loan a specified amount of their valuation and then you pay about one per cent per month. In the semi-philanthropic companies which make chattel loans in competition with the commercial personal finance companies, their rate on chattel loans will run around two, two and a quarter and two and a half per cent, depending on the community.

By Mr. Donnelly:

Q. Mr. Henderson, has your organization, the Russell Sage Foundation, made any survey of the necessity for loans?—A. Yes.

Q. That is, as to how many people there are or what classes of people would be better off without a loan at all—people who borrow money without a real necessity for it?

The CHAIRMAN: Is that a question?

The WITNESS: There are two questions. The answer to the first one—as to whether the Sage Foundation has made any studies as to the necessity for loans,—is yes. That was basic to the initial work and to the continuing interest

that the Foundation has had. On that question, all four directors have never had any hesitation. As to the necessity for regulated lending, as to where you can draw the line on the right of the individual to borrow or not to borrow, the answer is no.

By Mr. Donnelly:

Q. Do you not find that there are a great many people that could get along without loans,—people who borrow money without any real necessity for it?

Mr. TUCKER: People who would be much better off if they did not?

The WITNESS: If you mean that the human being is fallible, yes.

Mr. KINLEY: He has a right to be, if he wants to.

By Mr. Vien:

Q. I wanted to ask you if it is a fact or not that lending money on pawn-brokerage is less expensive than the business carried on by these lending companies?—A. Oh, yes.

Q. Yes, it is?—A. The actual cost of pawnbroking loans is considerably less.

Mr. BAKER: They have the actual security.

The WITNESS: A loan shark once said to me, "The Provident Loan Society has got its borrower locked up in its vault. My borrower is probably in a saloon spending my money."

By Mr. Vien:

Q. Have you a copy of the law and regulations of the various states which you cited as being good examples to be followed?—A. I have, and will leave with the committee, the sixth draft of the uniform law which contains that information.

Q. Where is it applicable?

Mr. MARTIN: In the six states.

Mr. VIEN: In the six states in the United States?

Mr. MARTIN: Twenty-six.

The WITNESS: No. This is the sixth draft which is the model which is proposed now and is the recommendation. Twenty-six or twenty-seven states have something like the uniform law, beginning with the first draft and with various modifications down to this.

Q. You would not say this has been enacted throughout the states you have mentioned?—A. No.

Q. Have you a reference to the statutes which are in this? Perhaps Mr. Finlayson has that.

Mr. FINLAYSON: What is the date of that draft?

The WITNESS: It is 1935.

By Mr. Vien:

Q. What I have in mind is this, Mr. Chairman. Mr. Henderson has mentioned to the committee certain excellent legislation that has been introduced in five or six states that he has named. I wanted to know whether we could have an easy reference. We must have that in our library. The statutes are in the library.—A. If you want the actual statutes, the reference is here.

Q. The reference is here?—A. Yes.

Q. That will be plenty.—A. In these books here they are discussed. I am leaving these with the chairman.

Q. Would you read into the record the names of those books that you refer to?—A. The books?

Q. Yes, if you would.—A. I am leaving with the chairman a book entitled "Small Loan Legislation" by Gallert, Hilborn and May; a book entitled "Regulation of the Small Loan Business" by Robinson and Nugent; a book entitled "Money Lending in Great Britain" by Orchard and May; and a copy of the sixth draft of the uniform small loan law and citation of the small loan statutes, all of which are publications of the Russell Sage Foundation.

Mr. VIEN: Mr. Finlayson, I think you have a further reference.

Mr. FINLAYSON: What I was going to say, Colonel Vien, is that in this Robinson and Nugent book, "The Regulation of the Small Loan Business," at page 134 you will find a list of these states which have adopted the uniform law with the rates which they have inserted in it.

Mr. VIEN: Thank you. What is the date of the book?

Mr. FINLAYSON: This book is 1935.

By Mr. Tucker:

Q. There are two questions I would like to ask, just to follow up the question I started to ask about these semi-philanthropic institutions. I suppose you have investigated them to find out whether they lost any money by lending at those rates that you have mentioned?—A. Yes. For a long time the director, my predecessor, acted as secretary of the association of the philanthropic and semi-philanthropic associations. We were in very close touch. In fact, we had more adequate information from them than we had from the commercial companies.

Q. Well, was any money lost by those companies?—A. There was great variation in their earnings. There would be in the early stages. When they were getting started, they might lose some money; but pretty generally they made some money.

By Mr. Vien:

Q. But they are not operated for a profit?—A. No. They make a certain limited return, and they have pretty generally been taking selected risks. They have been interested in continuity and the preservation of their capital. They have not been bold enterprisers at all. They have done a grand service for the borrowers.

By Mr. MacDonald:

Q. What do those companies charge?—A. It varies, as between cities and as between the type of collateral that they take. But those companies which do a chattel loan business, on semi-philanthropic funds, charge from two to two and a half per cent.

By Mr. Donnelly:

Q. Per month?—A. Per month.

By Mr. McGeer:

Q. Mr. Henderson, I do not want to be asking you too many questions; but would you say in our situation—you know it fairly well now—that the first thing we in Canada should do would be to draft and secure enactment of a general law supervising and providing for the regulation of money lending, and that that should be the preliminary to the licensing of individual corporations to carry on that business?—A. Most assuredly. The whole burden of my testimony, I think, has been in that direction.

By Mr. Tucker:

Q. The other question I wanted to ask is this: if you incorporate these companies and give them the right to charge these high rates of interest without

having, first of all, done all you can to extend the field of operations by virtue of state assistance, of credit unions and by putting the onus on the banks of extending their field of operations as far as they can reasonably be expected to do, is it not likely that these other companies will occupy the field by virtue of extensive advertising campaigns and so on, and that the banks will fail to discharge the duties they should towards the small borrowers and the chances of expanding co-operative lending as it should be expanded under the credit union idea will be prevented? Is there not a danger there?—A. I do not see that danger. As I said before, the Sage Foundation moved very vigorously into this area. The first Morris Plan Bank was around 1911 and your first credit union was around 1910; the first small loan law was around 1911. Now, the credit unions and the banks, regardless of whether there is a small loan law or not, do not seemingly absorb the entire market; and my own feeling very, very definitely is that if it is possible for a loan company, charging two and a half per cent, to take business and to keep business from a bank charging one and one and a half per cent or from a credit union charging one per cent, then there is something faulty in the mechanism of the credit unions and the personal loan departments of the banks. I do not see that it is realistic to assume that small loan companies could keep borrowers against their will if there were an alternative, a much cheaper and presumably a much more dignified source of credit. In my experience, it just did not happen that way.

Q. Would you not expect that people with money to loan—take for example, a banking corporation—would rather loan to one of these companies and have them do the business, and be sure of their rate of interest, whatever it might be—five or six per cent—than have to enter the field themselves; and that if you simply enter this field you relieve the bank of any responsibility of fulfilling the duty which it should fulfil perhaps by virtue of getting charters, which are very valuable? Is that not possible?—A. It is possible. I hope I will not be misunderstood, but I do not think it is realistic. I gathered something in what you said that you might try to compel the banks to make certain classes of loans, and I certainly would think that was decidedly unwise. Certainly in any essence of banking that I know anything about, you cannot compel them to make certain classes of loans and still maintain the character of that institution.

By Mr. McGeer:

Q. You know that one of our banks has gone into the small personal loan business?—A. Yes. But that is something different from saying that a bank must make certain classes of loans.

By Mr. Tucker:

Q. If one bank has gone into the field and is filling the need there, could you not say to the other banks, "You must enter the field too," and investigate as to whether they are really satisfying the credit needs of the community? If they are not doing that, their charter should be cancelled—I mean, reasonably satisfying it?—A. Mr. Chairman, that involves a question of what the national policy on banking acts is that I would not want to respond to. Certainly I have indicated that I think it would be a highly undesirable thing for any bank.

By Mr. McGeer:

Q. Mr. Henderson, surely it is the consensus of your investigation that the small loan is an inevitable situation, and that supervision is the only available alleviation of the abuses that attend it at the moment. Is that not the Russell Sage view?—A. Yes. Unfortunately, there have been dynamics in the increase of the use of consumer credit over which we have no control, and which we say ought to be brought within social control.

Q. And they are likely to increase, are they not?—A. I am afraid that they are, yes.

Q. Would you mind giving me the name of the organizations in New York, Ohio, New Jersey and the other states that you mentioned? Suppose we wanted to have witnesses from Massachusetts or New York or Wisconsin or New Jersey—who would we get in touch with there?—A. I think that the secretary, by writing—

The CHAIRMAN: We have that information, Mr. McGeer.

Mr. McGEER: All right.

By Mr. Plaxton:

Q. I took it this morning from what you said, Mr. Henderson, that the Russell Sage Foundation recommends a rate of three per cent on the first one hundred dollars and two and a half per cent on the second and third hundred dollars. When you were speaking of a rate that might be applicable to Canada, I took it, as I recall it, you mentioned two and a half per cent. Was that the minimum rate?—A. Yes.

Q. In other words— —A. And a maximum.

Q. In other words, you suggest that as a flat rate?—A. As a flat rate, yes; because as I said, I felt that you would get lower going rates from the operating companies here.

Mr. McGEER: That maximum should include all interest and charges, if there were any.

Mr. KINLEY: Why do you think it would be lower?

Mr. McGEER: Competition.

The WITNESS: Competition and based on experience to date.

Mr. KINLEY: They must do more business. Their turnover must be greater.

The WITNESS: Yes. You have some companies that are doing business here, and you have under your act a general limitation of two and a half per cent, if I read Mr. Finlayson's report correctly.

Mr. KINLEY: They are doing pretty well.

The WITNESS: They are not doing at all badly.

By Mr. McGeer:

Q. Are there any companies lending at less than the flat rate, in the states where they are in operation, that you know of?—A. In the United States?

Q. Yes, I mean where you have the flat rate situation?—A. Oh, yes.

Q. Have you had any experience of where companies are lending at less than that?—A. Yes.

Q. I suppose that is fairly common, is it not, in all the states?—A. Yes, it is. As I said this morning, we rely on getting this effective rate in competition from other lenders, other licensees—competition from other types of lending and on the alertness of the state supervisor in keeping the maximum at what amounts to a driving force.

By Mr. Donnelly:

Q. Would you fix the maximum amount at \$500 or \$300?—A. I prefer \$300.

By Mr. McGeer:

Q. How many states have that limitation?—A. As far as I know, twenty-six out of twenty-seven that I know of have that \$300 limitation.

By Mr. Tucker:

Q. Why do you prefer that \$300 to the \$500?—A. I think I said this morning we had found that it was adequate to cover most of the needs of the borrowers arising from emergencies and the type of the loans which are contemplated to be made by the licensees; and second because it has stood up under our constitutional requirements. To put it bluntly, it has never been seriously questioned except by loan companies that would like to get a much wider range.

By Mr. Plaxton:

Q. Is not a flat rate open to this objection, that it might conceivably be too high for loans falling in a certain bracket and too low for the upper bracket loans?—A. That is right. For that reason I think that there is a high value in getting hold of this thing early. I think that a two and a half per cent, as I say, it would give you at least a period of observation, all that you perhaps, ought to have, for small loan balances in small cities, and still would permit loan companies that are now existent to have lower rates. I think you would get an effective rate lower than that.

Mr. KINLEY: Your rate is a state rate; that is, the rates that you have in the United States are all made by the state legislatures?

The WITNESS: That is right.

Mr. KINLEY: The rate that we would make here would be a national rate covering the whole country. What would be your problem if you had to have a rate for the whole country?

The WITNESS: I think we could handle it very easily. I think the rate would be around three per cent on the first \$100 or \$125 and two and a half per cent on the balance.

Mr. FINLAYSON: Following up Mr. Plaxton's question, what is the object of the graded rate such as you have in Wisconsin and New York?

The WITNESS: The graded rate in Wisconsin was the selection of the state legislature itself.

Mr. FINLAYSON: In principle, what is the object of the graded rate?

The WITNESS: In general terms, the object of the graded rate was to see that loans of a smaller denomination were made, and since there is a fixed cost applicable against any loan, there has been a tendency for the average loan to move up, particularly with increasing costs that have been taking place in the various states.

Mr. FINLAYSON: So that with a flat rate there is the danger that a man who only needs a small loan would not be able to get it?

The WITNESS: Yes, there is.

Mr. FINLAYSON: And the object of the graded rate is to permit the company to charge a slightly higher rate for the very small loan in order that it may serve that field?

The WITNESS: But we did that, Mr. Finlayson, after the business had been established. That was a sort of corrective thing, and that is what I had somewhat in mind, that I feel after you get started that you can pretty well—

Mr. FINLAYSON: Get started early?

The WITNESS: Yes.

Mr. FINLAYSON: If 2½ per cent were fixed as the rate, the company might be quite able and willing to make \$150 loans at that rate, but they would not want to make \$50 loans?

The WITNESS: That is quite possible.

Mr. FINLAYSON: Therefore, the man who only needed a \$50 loan would have to look elsewhere for his money?

The WITNESS: There is that possibility.

Mr. FINLAYSON: Will you just explain how that graded rate works? When you say that the graded rate is 3 per cent on the first \$100 loan, how does that work in the case of a \$300 loan?

The WITNESS: On a \$300 loan the man would pay at the end of the first month \$3, plus \$5 or \$8, and then if he made a principal payment on the next computation he would pay 3 per cent on \$100 and then he would pay $2\frac{1}{2}$ per cent on \$170. He has a combined rate.

Mr. FINLAYSON: Take the \$300 loan, the entire balance bears what rate of interest at the beginning of the repayments?

The WITNESS: \$266 at the beginning.

Mr. FINLAYSON: And the first repayments are applied to discharge which element of the loan?

The WITNESS: The cheap loan.

Mr. FINLAYSON: So that when the loan gets down to \$150, the lender then gets what rate of interest thereafter?

The WITNESS: Well, if the break is at \$100, he gets 3 per cent on \$100.

Mr. FINLAYSON: Take the break at \$150.

The WITNESS: 3 per cent.

Mr. FINLAYSON: On the balance of the loan?

The WITNESS: Yes.

Mr. FINLAYSON: So that on the average the lender is getting on that \$300 loan possibly $2\frac{3}{4}$ per cent or more?

The WITNESS: I do not know.

Mr. FINLAYSON: I have made the computation here. He gets 2.86 per cent on the average on that loan.

Mr. DONNELLY: That is if he meets all the payments when they become due.

Mr. FINLAYSON: That is right. Now, what you have is this: that while $2\frac{1}{2}$ per cent might enable that lender to make the \$300 loan, by that graded rate that you have suggested, he gets in fact 2.86 per cent on the average?

The WITNESS: Yes.

Mr. FINLAYSON: So that the graded rate, it seems to me, works to increase the rate of interest on the large loan and that is quite foreign to the object of the graded rate which is to enable the \$50 man to get a loan?

The WITNESS: Well, when we were coming down off the high level, the experience very definitely was that there was an increase in the small loan, which we wanted, and there was a decrease from 3 or $3\frac{1}{2}$ per cent to 2.86, if that is the rate,—a very substantial reduction in the rates on the high loans. So that the purpose of the Sage Foundation in both instances, that of serving the small borrower and of reducing charges to the high borrower, was accomplished.

Mr. McGEER: What Mr. Finlayson suggests is that if a man borrows \$300 he pays the graded rate all the way through, but he does not pay on \$300 a flat rate. He does not pay 3 per cent on \$100 and another rate on the next \$100 and another rate on the next \$100 if he borrows a total amount of \$300.

Mr. VIEN: Yes.

Mr. FINLAYSON: He pays 3 per cent on \$150 right through the whole year.

Mr. BAKER: The first \$100.

Mr. McGEER: That does not mean if he borrows \$100 he pays 3 per cent, and if another man borrows \$200 he pays the lower rate, or if he borrows \$300 he pays the minimum?

Mr. FINLAYSON: No.

Mr. KINLEY: If he borrows \$300 he puts up security, and that security is held until the loans is paid. Why should he pay a high rate of interest when he gets to the low break? It seems to me it would be eminently fair for him to retain that rate of interest on that loan notwithstanding that he pays it off on a \$150 loan.

The WITNESS: You are getting into a technical difference there. If he wants to say he has paid 2·86, that is all right.

Mr. KINLEY: There is no expense in connection with the loan after it is made; you have got security.

The WITNESS: Let us get back to what the actuality is. He pays a certain number of dollars for the use of \$300.

Mr. KINLEY: Yes.

The WITNESS: Now that is the thing which is the net subtraction for him. That rate may be 2·86. What we were doing in this step-down was trying to get a lower rate on the higher loans and a drive to smaller loans, and both of these things were accomplished. And I have said here that I thought if you caught it early that you could do much better than we did.

Mr. VIEN: 2½ per cent flat is a better condition than you have?

The WITNESS: Yes.

Mr. QUELCH: If you raised the limit to \$500, there should be a slight reduction in the flat rate.

The WITNESS: If the \$500 loans are made, yes. If you could show that the small loans were not being made, I would be prepared to recommend that the rate be increased to 3 per cent on the first \$100.

Mr. FINLAYSON: When you speak of a graded rate of 3 per cent on \$150 and 2½ per cent thereafter, it does not mean that the man who borrows \$150 pays 3 per cent and that the man who borrows \$300 pays only 2½. It means this—

Mr. McGEER: You can make it that.

The CHAIRMAN: Just a minute; let Mr. Finlayson finish his questions.

Mr. FINLAYSON: Take the New York provision. The rate there is three per cent on the first \$150 on all loans and two and a half per cent on the balance over \$150. On a loan under \$150, of course, the rate is three per cent. On a loan of \$200 the rate is not two and a half per cent but 2·96 per cent.

Mr. BAKER: Because he paid off the first \$250?

Mr. FINLAYSON: On a loan of \$250 the rate is 2·91 per cent and on \$300 the rate is 2·86.

Mr. McGEER: If the purpose of making a higher rate on the lower amount is to induce the borrowing of small loans and yet provide the loan company with the overhead, is there any reason why the legislation should not provide for a flat rate on the first \$100 and an actual rate of so much on the second amount and so forth?

The WITNESS: There is none, except you get into an awfully bad mathematical problem there in which you leave a gap of \$40 or \$50 in which it is better for the lender to borrow the larger amount. We spent months on the joint rates, and what I have been suggesting here is a rate of two and a half per cent and to try that to see whether competition did give you the lower

rate, and then if you found the smaller borrowers were not served there is no reason why you should not make a split there. The two and a half per cent, as I have suggested, is a much better rate, as Mr. Finlayson has certainly pointed out.

By Mr. Finlayson:

Q. May I suggest this, that with the graded rate you might provide for the repayment of the higher interest bearing element first? That would still give you the gradation that you are looking for, but would reduce the average rate.—A. If you let the man who borrows \$300 pay off the cheap money first; but take the man who borrows \$100.

Q. If the man who borrows \$300 applied his first repayments to paying off the three per cent element, and then took the lower rate element— —A. We thought of that, but because of the scope of the arrangement and the confusion that it caused and the distortion it would do to the lending business, we never gave much time to it.

Q. Can I put one more question to you. Has the Foundation ever considered what is a fair rate of return on invested capital or total net assets in this business? You suggest that there should be administrative discretion to fix a rate below the maximum. Have you ever considered at what point the reduction would be justified, based on the returns to the lenders either on their paid-up capital or on their total net assets after deducting reserves?—A. We had a lot of consideration of that; but for the most part there was never enough funds coming in to the small loan business through the established capital market to supply the demand. That is where we felt that we ought to have a general maximum and that the greater return ought to be geared to the amount of capital that was necessary in the business. Contrary to most kinds of business there never seemed to be enough cheap money available, and so we never assessed what ought to be the proper rate. However, we did go to a tremendous amount of enquiry to establish what the earned rate was, and you have available the studies that we have made on that.

Q. Do you think that is a material factor in determining whether there should be a lowering of the rates and in the return actually received by the lender?—A. Yes.

Q. Perhaps you are familiar with the Massachusetts rate. Massachusetts has actually regulated it on a flat three per cent.—A. With some modifications of special classes of security.

Q. I believe they have modified it recently so as to provide two and a half per cent on some types of security on amounts above \$150. I notice from the Massachusetts report that the average earnings on the net assets in 1936 were about seven and a half per cent for all lenders, small loans companies around 8·36, the Morris plan 3·53, and altogether 7·57. With the rate of earnings the commissioner, who has administrative discretion, reduced the rate of interest to approximately the New York figure. The provision is that the rate is three per cent on the first \$150, and in the case of a chattel mortgage two per cent on the balance of the loan; if the security is a single signature or the signature of a husband and wife it is three per cent on the first \$150 and two and a half per cent on the excess. Now, that reduction was ordered to be put into effect on the earnings that I have mentioned. Suppose we had in Canada a company earning on the average say two and one-third per cent or 2·4 per cent per month, and earned ten per cent or more on its total net assets less reserves for unearned income and losses, would you think there would be justification there for a reduction in the rate?—A. I cannot—

Q. Perhaps you would not care to answer that?—A. I cannot make that fine distinction on the proper rate to be allowed, first because of the difference between an established community like Massachusetts and Canada.

Mr. VIEN: A growing country like Canada.

By Mr. Finlayson:

Q. At any rate, when you speak of administrative discretion you would say that that point which I have mentioned is one that should be taken into consideration by the administrator?—A. I have looked at that and I think the Russell Sage Foundation has looked at it from the standpoint that that is what the administrator ought to be constantly reporting to parliament so that the parliamentary decision would be more intelligent. I would put it that way. I would assume he would know much better what was the rate necessary to attract capital, and that he would not be trying to penalize efficiency. I can conceive of a situation where a company could earn eleven or twelve per cent and the borrower would be much better served by a company that lost money, you see.

Q. The Russell Sage Foundation does not favour the graduation of the rate with the type of security taken?—A. It is not—

Q. It favours a uniform rate for all types of security?—A. We have felt, I think, that the supervisor would make a recommendation if a business grew up on a kind of collateral or security where the risk was not as great as that contemplated by the law.

Q. Do you think that there has been over there excessive expenditure on publicity and solicitation?—A. Yes, I think it has not been so much the excessive expenditure that would affect the cost to the borrower, as it has been the bad character of the thing. I refer to the circulars.

Q. Has there been what you might call competitive advertising, the feeling that one lender must keep up with another lender and so forth?—A. I believe there has been some of that.

Q. That may have been developed into an evil?—A. I think I can speak of that constructively. We provide in the law (the sixth draft) that rules and regulations may be established by the supervisor requiring copy to be submitted to the supervisor and some information to get rid of the most vicious of these things. We certainly approve of that.

Q. Has there been an attempt to deal with the problem of the limitation on the percentage of gross income which may be expended for advertising?—A. No, and I think that would be an unwise way to get at it. I would prefer again that the administrator, familiar with it, should have some authority to say wheher or not the circulars should be addressed to all the people.

Q. This is the case of an administrator seeking advice and counsel from the man who knows most about this business.—A. I would say constructively it cannot be done on a percentage basis, because I know in some cases the advertising itself reduces the cost of doing business, and I am pretty generally against this forced advertising. I know in general the United States public has been very very badly abused.

Q. Let us get down to cases. We have three regulated companies here, and they have spent about ten per cent of gross income on advertising; whereas other kinds of companies, loan companies, trust companies and so on, spend only one per cent or less. Now, does that appear to you to be a disproportionate cost of advertising, or would you care to say?—A. Mr. Nugent could give you a better answer than I can. Mr. Nugent has that comparison.

By Mr. Baker:

Q. Should we have legislation against advertising?—A. I think not. I would trust again to the fellow who lives with it day in and day out.

By Mr. Finlayson:

Q. I am just through now. I just want to ask Mr. Henderson if he can give us any information about the Morris Plan bank. My impression is that these Morris Plan banks differ from the small loan companies in this respect, that they have the power to take deposits from the public and to issue certificates; thus, they get their money from the public otherwise than by share capital. As the result, their rates are substantially lower than those of the small loan companies.—A. The Morris Plan is the name given to one type of what is known as industrial banking concerns; and in some of the states where they got started early they were able to sell certificates of deposit—that is what they in effect are—and so cheaper cost money; but the main thing that they relied on and a thing which distinguishes them from the small loan companies, is that their loans were not limited to \$300 in their amount; and secondly, they required endorsers. In other words, they loaned all their money on paper, and they usually loaned at a rate which is about an effective rate of $1\frac{1}{2}$ per cent a month, and they usually had a much higher loan rate, and they had more business loans. That business has come directly in competition with the loans by the personal loan departments of the banks, and they have had quite a considerable success in that type of lending.

Q. If they were not permitted to take this money from the public by way of deposits, or by way of investment certificates, they could not lend at that low rate?—A. That is right. There are three things which I think enter into it: They are not limited to \$300; they have a deposit capital; and the security of co-signers is there.

Q. Have you any information as to the personal loan departments of the banks? Have they been faced with any excessive losses, or any substantial losses, or, is there any information of a public character on that?—A. No. Mr. Nugent had an article that he could not get at what those losses were. It is very difficult to get at that because the banks have not segregated that information.

Q. Can you say in framing the rate structure for the small loan companies in the United States what provision is made for losses that will have to be written off? Is there any rate assumed in building up the rate structure?—A. No, it was not built up that way, Mr. Finlayson.

Q. Have you any knowledge as to what the actual realized loss is in your companies generally, over a period of years?—A. Yes, that was in the Nugent study—

Q. Just in general?

The CHAIRMAN: Give us the reference and we can look it up.

The WITNESS: I think that will be found in the pamphlet called, "The Expenses of Small Loans Licensees".

By Mr. Finlayson:

Q. Is that a pamphlet Mr. Nugent has just published?—A. Yes.

The CHAIRMAN: Could we have a copy of it?

The WITNESS: Yes, I will leave my copy with you.

By Mr. Finlayson:

Q. I just wanted to ask if you think a loss of one-half of one per cent would be large or small?—A. It would be small for licensed companies. Probably the only time I have seen them use that was when they were trying to sell some of the securities.

Q. And if Canada proved to have a loss of one-half of one per cent while some of the states in the United States might have a 5 per cent loss, that might operate as a warrant for a lower rate in Canada?—A. Yes, if you were striving to try to get the tightest rate you possibly could get.

Mr. MARTIN: It will be remembered that at a meeting of the subcommittee it was agreed that we should ask the Russell Sage Foundation when their representatives came here if they would care to recommend someone who had actually to deal with the operation of the law whom this committee might summon as a witness at a later date if it so desired.

The CHAIRMAN: You mean, an administrator?

Mr. MARTIN: Yes.

The WITNESS: I would prefer it if you would ask Mr. Nugent about that, because I am really out of touch with it now.

Mr. COLDWELL: Mr. Chairman, I am sure that we are all very grateful to Mr. Henderson for coming here and giving us this very excellent exposition today.

Some Hon. MEMBERS: Hear, hear.

Mr. COLDWELL: On behalf of the committee, seconded by Mr. Baker, I wish to move a very hearty vote of thanks to him. In doing so I would just like to say this, that I do not think I have ever heard a witness who has given a clearer explanation or clearer answers to questions that have been asked. I am quite sure that we have all benefited very greatly from his presence here, and what he has been able to give us will help us very materially in meeting this very difficult problem which we are called upon to deal with.

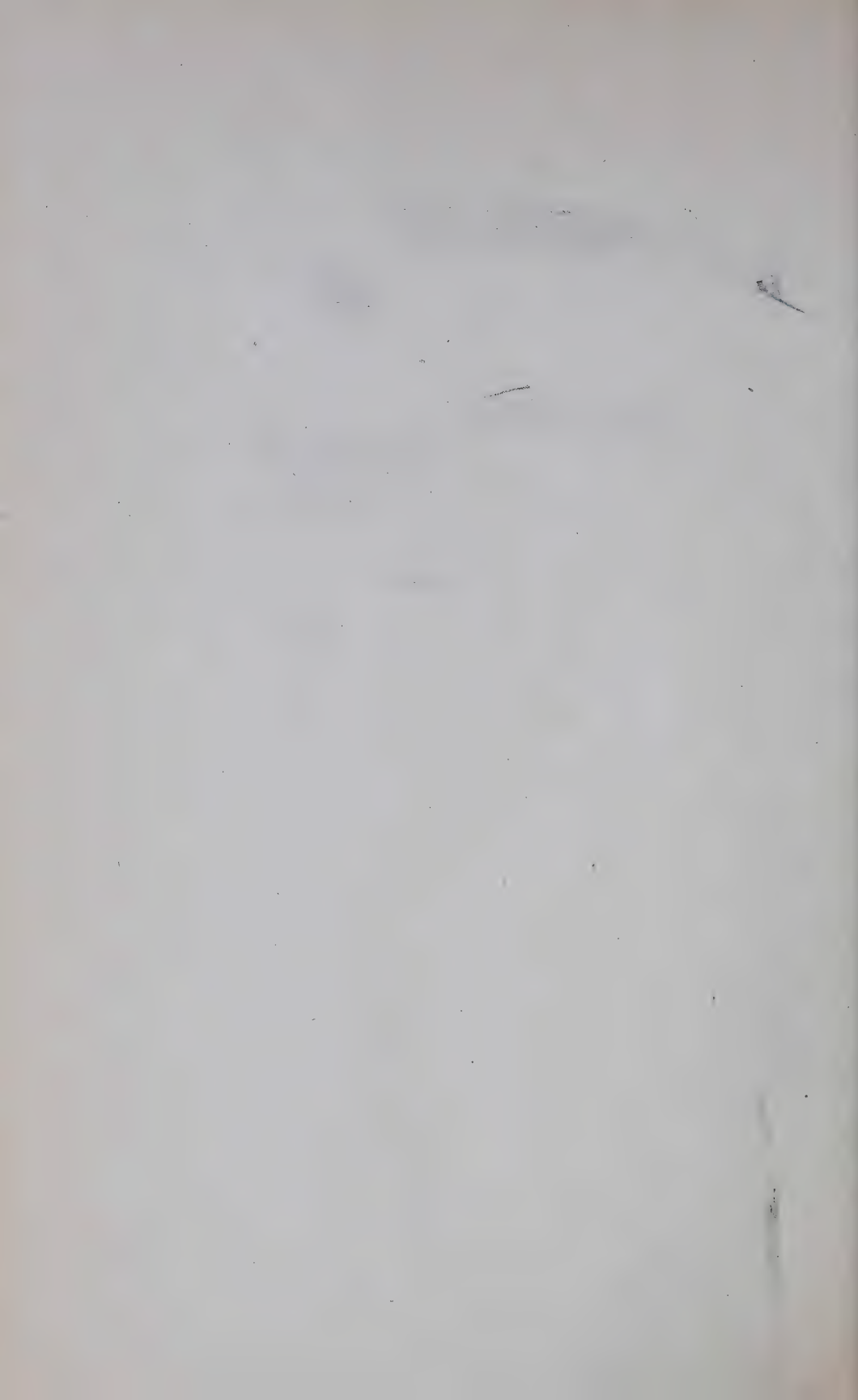
Some Hon. MEMBERS: Hear, hear.

Mr. BAKER: I have very great pleasure, and I esteem it an honour, in seconding this motion. Speaking for myself personally, it has been a great pleasure to be seated in this committee because I always enjoy meeting a man who knows his job; and we have certainly met one today. It is a very great pleasure also to feel that we have among our cousins to the south valuable power to draw on when we need it; and we certainly made a good draw on this occasion. We have received in condensed form in a very short time an amount of knowledge which it would have taken us a very long time to acquire in any other way. And I express great appreciation, I am safe in saying on behalf of the chairman and the members of this committee, for Mr. Henderson's appearance before this standing committee on Banking and Commerce of the House of Commons of the Dominion of Canada. I hope that when you go home, sir, you will express to your fellows in the Foundation that we here have fully appreciated your services and your kindness in coming here, and we hope that we will have the pleasure of seeing you oft times again.

Motion agreed to.

The WITNESS: I find myself quite incapable of responding. I just want to say that this all makes me very very happy.

The CHAIRMAN: Thank you very much.



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Canada Banking and Commerce
Standing Committee on 1956

HOUSE OF COMMONS

Third Session—Twenty-second Parliament
1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 9



The report of the Bank of Canada
for the year ended December 31, 1955.

TUESDAY, MAY 15, 1956

WITNESS:

Mr. J. E. Coyne, Governor, Bank of Canada

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

| | | |
|-----------------------------------|---------------------------------|------------------------------------|
| Argue | Gour (<i>Russell</i>) | Power (<i>Quebec South</i>) |
| Ashbourne | Hanna | Quelch |
| Bell | Henderson | Regier |
| Benidickson | Hollingworth | Richardson |
| Blackmore | Huffman | Robichaud |
| Cameron (<i>Nanaimo</i>) | Low | Rouleau |
| Carrick | Lusby | St. Laurent (<i>Temiscouata</i>) |
| Crestohl | Macdonnell (<i>Greenwood</i>) | Stewart (<i>Winnipeg North</i>) |
| Deslieries | MacEachen | Thatcher |
| Enfield | Macnaughton | Tucker |
| Eudes | Matheson | Valois |
| Fairey | Michener | Viau |
| Fleming | Mitchell (<i>London</i>) | Vincent |
| Follwell | Monteith | Weaver |
| Fraser (<i>Peterborough</i>) | Nickle | White (<i>Waterloo South</i>) |
| Fraser (<i>St. John's East</i>) | Pallett | |
| Fulton | Philpott | |

Eric H. Jones,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS,
FRIDAY, May 4, 1956.

Ordered,—That the report of the Bank of Canada for the year ended December 31, 1955, tabled Thursday, March 1, 1956, be referred to the said Committee.

Attest

LEON J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

TUESDAY, May 15, 1956

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Argue, Ashbourne, Benidickson, Blackmore, Cameron (*Nanaimo*), Carrick, Deslieres, Enfield, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Gour (*Russell*), Hanna, Henderson, Hollingworth, Huffman, Hunter, Macdonnell (*Greenwood*), MacEachen, Michener, Philpott, Power (*Quebec South*), Quelch, Regier, Robichaud, Viau, Weaver and White (*Waterloo South*).

In attendance: Mr. J. E. Coyne, Governor; and Mr. R. W. Lawson, Deputy Chief, Research Department; both of The Bank of Canada.

(*Note: The Committee first considered a Public Bill in respect of which the Minutes of Proceedings and Evidence are recorded in Issue No. 8 of the Committee.*)

At 11.20 o'clock a.m., the Committee proceeded to consider the report of the Bank of Canada for the year ended December 31, 1955, copies of which had been distributed to the Committee.

On motion of Mr. Viau.

Resolved,—That the Committee print 750 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence in respect of the report of the Bank of Canada for the year ended December 31, 1955.

Mr. Coyne was called; he made a statement supplementing his annual report on the Bank of Canada. He was questioned, in particular on various aspects of the operation and effects of monetary policy.

At 1.00 o'clock p.m., the Committee adjourned to the call of the Chair.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

TUESDAY, May 15, 1956.
11.20 a.m.

The CHAIRMAN: We will consider now the report of the Bank of Canada for the year ending December 31, 1955. Mr. Viau, you have a motion to make?

Mr. VIAU: I move, seconded by Mr. Carrick, that the committee print 750 copies in English and 200 copies in French of its minutes of proceedings and evidence in respect of the report of the Bank of Canada for the year ended December 31, 1955.

The CHAIRMAN: You have heard the motion.

Mr. VIAU: I would point out, Mr. Chairman, that although this is a routine motion, the 200 copies in French should be made available as soon as possible, and not in six months or at a later date as is customary.

The CHAIRMAN: Thank you Mr. Viau. Your comments have been noted. All those in favour of the motion?

Mr. CAMERON (*Nanaimo*): Mr. Chairman, just before we take a vote, I understood we had already passed a motion that covered all our hearings this session. That is certainly what we did last year.

The CHAIRMAN: No, because the proceedings on private bills, are not printed, and we must bring this matter up each time we are on a public bill or on a similar matter.

Mr. CAMERON (*Nanaimo*): All right. I was just curious to know why we were doing it this way.

The CHAIRMAN: All those in favour? Contrary if any?

Carried.

The annual report of the Bank of Canada has been distributed. Has everybody here a copy of the report? Mr. Coyne has suggested that the report really is his statement, but that he has certain comments which he will make.

Mr. J. E. Coyne, Governor, Bank of Canada, called:

The WITNESS: Thank you, Mr. Chairman. It is a pleasure to be back with you again. I do not have any formal statement to make other than to submit to you the report for the year 1955 which has already been printed and distributed. It deals, of course, mainly with the events of the past year.

I might say a few things, if you thought it would be helpful, by way of background and to start off the proceedings, and then, of course, I will be glad to answer any questions or participate in any discussion.

Two years ago this committee had a very comprehensive discussion and review of monetary policy in all its aspects. I am not going to try to cover the same field again, but simply to mention a few points in connection with one or two aspects of the job of the central bank. Members of this committee are, of course, familiar with the history of the Bank of Canada. It was incorporated by act of parliament in 1934, and a preamble was put into the act giving a general outline of what the bank was intended to do, the objectives of its operations, which I think perhaps I might read. The preamble declared,

Whereas it is desirable to establish a central bank in Canada to regulate credit and currency in the best interests of the economic life

of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion:

That is a very large mouthful, and a very large, broad set of objectives. It is important, of course, for us always to bear in mind the qualifying words "—so far as may be possible within the scope of monetary action". There are many other kinds of action which are taken by government and parliament and by various bodies throughout the country which will affect the general level of production, trade, prices and employment, as well as monetary action.

The bank was set up as a corporation, a banking corporation with its capital stock held by private shareholders, but in 1936 and in 1938 parliament made changes in that respect, so that the government of Canada became the sole shareholder and owner of the capital stock in the bank. At the same time, the earlier provision by which the directors of the bank were elected by the shareholders was replaced by the present provision by which they are appointed by the Minister of Finance with the approval of the Governor in Council, for a three-year term.

There are 12 directors appointed in that way, and their terms are staggered so that one-third of them come to the end of their terms each year, and are eligible for reappointment. The provision was made in the original act that the governor would be appointed by the directors, but the appointment required the confirmation of the governor in council. That provision, of course, still remains.

It being set up in this way as a corporation, with an outside board of directors chosen largely from outside Ottawa, it follows that the directors, of course, are not civil servants. Neither, in fact, is the staff of the bank, or any of its officers or employees, who constitute a separate establishment. Having our head office here in Ottawa we are naturally in close touch all the time with the government departments, and members of the civil service. The Civil Service Commission, by the way, is our chief competitor in the selection of personnel. In the day to day operations of the bank, and particularly in those general economic matters in which we have to take an interest—though we do not carry out operations except in the monetary field—but in the general economic field we are constantly in touch with other government departments, maintaining close liaison with them, being of assistance to them sometimes, and at others receiving a great deal of assistance and information from them.

The management of the bank, as you know, was entrusted to the board of directors. They are responsible for having the bank operate in such a way, if it can, as to achieve its objectives, which are set forth in the preamble. The specific legal powers of the bank are set forth in various sections of the act.

In addition to these responsibilities resting on the board as a whole, there is a very special responsibility resting on the governor, who is not only the chairman of the board, but chief executive officer. He has the authority to exercise all of the powers of the bank, unless they be, by the act, reserved specifically to the board of directors. By and large, in the field of ordinary monetary operations, the governor has all the powers of the board of directors. He cannot necessarily overrule them. There are some technical provisions in that regard. If there were ever any dispute between the governor and the board of directors, provision is made for it to be referred to the Minister of Finance and he submits the matter to the governor in council, who has the power to decide it. However that, of course, has never happened, and I trust it never will happen.

I might just say a few words, I think, Mr. Chairman, about how the bank operates and what it actually does—not so much the technical matters related to note issue and custody of public debt records and so on, but in the field of monetary policy and monetary operations.

The first point of importance, I think, is that every transaction we make—every item we buy or sell securities or foreign exchange—has an immediate effect on the cash reserves of the chartered banks. If we buy securities we pay by cheque on ourselves and the person who gets paid in that way deposits his cheque to his credit at his bank. The bank in turn deposits the cheque to its credit with us. Similarly, if we sell securities, the payment we receive from the buyer has to be charged against his account with his bank, and against that bank's account with us.

In addition to the fact that our transactions increase or decrease the cash reserves of the chartered banks, they may also have a direct effect on the supply of money in the country. If we deal with the general public we immediately affect the supply of money in the hands of the general public. But whether we deal with the general public with a chartered bank, the effect can be multiplied twelvefold as regards the supply of bank deposits in the country because the banks are required to keep only 8 per cent cash reserve against deposit liabilities. Any bank that finds it has more cash than that can make additional loans, or buy securities from others. As the other banks in turn, receive more cash, the multiplier process operates, by which deposits are increased by about 12 times the amount of the increase in the cash reserves of the chartered banks.

The central bank does not ordinarily take the initiative to increase or decrease the cash reserves of chartered banks. That is to say, it does not step out and bid for securities if it thinks an increase in cash reserves is desirable, or step out and offer securities in the market, if it thinks a decrease in cash reserves is desirable.

At any rate, not usually. For the most part there are transactions going on in the market all the time. People are making offers to buy or to sell, and the central bank is usually in a position to be able to respond to offers to buy from others rather than to take the initiative to make offers itself.

When there is a need for more money in the country, you probably find some people—you are certain to find some people—are selling securities in order to raise cash. If there is a need for more money as indicated by that fact, the central bank can buy some of those securities that are being offered, and thereby provide the cash. It will probably do so at prices which progressively decline as the strength of the selling pressure keeps up, so that you will probably find rising interest rates at a time when there is a demand for more money.

The rise in interest rates, of course, would be much greater if the central bank took no action at all. If we simply stood still interest rates would rise until sufficient buyers were found among the general public to balance the sellers among the general public. So, on the other side of the picture too, when, for a lack of other opportunities to invest, people are interested in buying government securities on an increasing scale, the tendency will be for the central bank to provide some of those government securities and sell them, and in that way dampen the fluctuation, which in that case would be a rise in government security prices, and a decline in interest rates. Generally speaking the central bank tries, and I think certainly should try, to foster orderly conditions in markets, and to dampen fluctuations, but not necessarily to prevent fluctuations if they represent real changes in supply and demand.

One of the things that we have no control over whatsoever, paradoxically enough, is the size of the note issue. This was presumably one of the first

central banking functions. To-day currency in the form of notes is only one form of money,—convenient form up to a point, but an awkward form beyond that point. The public in general prefers to hold a good part of the money in the form of bank deposits which it can transfer to others by cheque. The total amount of money which the public chooses to hold in the form of notes instead of bank deposits is decided entirely by the millions of individuals and businesses themselves. It is the job of the central bank to make sure that there is a big enough supply of notes to enable business to be transacted in that form to the extent that people want. So that you will find changes in the note issue occurring entirely without any volition on the part of the central bank, merely reflecting the proportion of money which people want to hold in that form.

This may change from time to time. There may be various reasons why people decide to hold more notes rather than more bank deposits, or rather, let us say, more notes and less bank deposits. There may be secular changes. There may be seasonal changes and there generally are. You find a rise in the note issue in November and December, and then a decline in January and a gradual rise throughout most of the rest of the year. From year to year as economic activity increases, and the whole economy grows, you will probably find a growing volume of notes. Now, I mention this, not just as an interesting factor in itself, but because the demand for notes affects the cash reserves of the chartered banks, and therefore creates a situation in which the central bank is called upon to make a decision of some sort. At a time when the public want more notes they withdraw them from their banks by writing cheques on their bank accounts. The chartered banks, up to a point, can take care of small fluctuations, because they have got a supply of notes on hand. There is quite a fluctuation within each week, for example, which the chartered banks can take care of quite easily.

But if there is a longer seasonal movement going on, or a secular movement going on, the chartered banks have to come to the central bank to get more bank notes. They can only get them by giving a cheque on their deposits with the central bank. That form of their cash reserves, therefore, declines. When the public wants more cash the banking system loses cash unless the central bank takes special action to relieve that situation. *Vice versa*, when the public decides to turn in part of its notes to the chartered banks, the banks deposit the notes with the central bank and they have a rise in their cash reserves unless the central bank takes other action which has the effect of causing these cash reserves to decline.

As a result of all the factors which may affect the supply of cash, the supply of money, and the buying and selling of securities on the market prices of securities will rise and fall, and interest rates will move correspondingly. This will occur in response to economic developments even if the central bank does nothing or even if it keeps the cash reserves of the chartered banks constant. It would happen even if there were no central bank, but it will happen to a different degree according to how the central bank responds to these demands of the market. It can even happen in a different direction if the central bank decided things were going wrong within the economy, and it had not only to offer some resistance but actually to take some strong action to reverse the direction of the movement. That, however, is a very rare event today. It generally means that things have got out of control, for a non-monetary reason perhaps, such as the outbreak of war elsewhere on the globe, or a big change in our defence programme at home, or something of that sort.

I do not want to bore you with a long discussion of monetary policy or operation, but I will try to say just a few words on the events of last year.

As we all know, generally economic conditions were not too good at the beginning of 1955. There had been a recession in business starting late in 1953, unemployment had risen, and in fact, in the winter of 1955—that is in January, February and March—our unemployment ratio got quite high something over 7 per cent of the labour force as compared with the situation in the United States at that time, where unemployment was 5 per cent of the labour force. The force of recovery from the recession had apparently got started earlier in the United States than in Canada, just as the recession itself had started earlier in the United States than in Canada. It was, for us, a curious kind of recession, or a curious use of the word “recession”, because actually there was not a recession, there was not a downward movement of much consequence. The total output of our economy scarcely declined at all, except in the field of agriculture where the special factor was the small grain crop in the year 1954. Apart from that, economic activity in this country levelled off rather than declined. Generally we called it a recession, and I think rightly so, because we have to use some words to describe a situation in which unemployment is rising. Unemployment rose not because production was declining but because the population was rising, the labour force was rising and the productivity of men employed was rising. Anything apart from growth could be said to mean recession and would be consistent with a situation of growing unemployment.

In early 1955, as throughout 1954, monetary policy was on the side of what is generally called easy money. The central bank's operations were such that the chartered banks at all times had plenty of cash and were able to make all the loans that seemed good in the circumstances. To the extent that there did not seem to be sufficient opportunities for making loans under those conditions, the chartered banks went out and bought government securities in the market with the surplus funds which you can say central bank policy permitted them to have. That put money into the hands of the people who formerly owned the government securities, at times just as effective a way of stimulating economic activity as making a bank loan.

However, in the second and third quarters of the year recovery came fairly quickly, particularly after June, and there was a very rapid rise in all forms of economic activity. Unemployment became quite small in the summer of 1955. This rise in economic activity was accompanied by a very rapid rise in bank loans, after March. Not only were there bank loans to business and to persons, but there was another form of credit, consumer credit, financed outside the banking system to some extent and partly by the banks, which also went up very rapidly, particularly as a result of the very heavy sales of automobiles in 1955. Capital investment by business had been forecast at the beginning of the year as somewhat higher than the expenditures of 1954, but no higher than 2 years ago, 1953. However, as it turned out the rate of expansion quickened throughout the year and the final outcome was a substantial rise in capital investment spending over 1953. There was also a substantial rise throughout the year in consumer spending. In the course of the year monetary policy changed from one of ease to one of neutrality, and finally to one of restraint.

There were three or four particularly interesting monetary developments during the year which engaged our attention for a considerable time. One had to do with the further development of the short-term money market. As I said earlier, the central bank at all times is entering into transactions taking place in the financial and securities markets. In securities matters, it deals in government of Canada securities of all kinds, both short-term and long-term, and these really are the significant day-to-day operations of the central bank. We

did not have, in the early days, much of a short-term money market in Canada, but from the beginning—from the establishment of the Bank of Canada—the bank has encouraged the development of a short-term money market for several reasons. For one thing, it is useful to have as good a market for short-term loans as for long-term loans; it is a convenience to the public and an assistance to business. Another thing is that it is a very convenient way by which banks can adjust their surplus or deficit cash reserve positions. One way would be for them to come direct to the central bank and deal in securities with us or, if necessary, obtain a loan from us, but that usually should not be necessary because at a time when one bank is short of cash the probability is that another bank is long on cash. A money market is a convenient mechanism by which the two can be brought together; it is ideal for that purpose. One requirement was that there should develop a group of skilled middlemen, the money market men or investment dealers, who know their job and have confidence that the market will continue to operate in a reasonably orderly way. The central bank has encouraged and has in a sense underpinned the market by saying to those who are specializing in this kind of activity that if the market seems not to be operating properly, and, in particular, if money is too tight, “you can come and sell your short-term securities to the central bank, provided you promise to take them back again after a short interval”. This arrangement is called a purchase and resale agreement, and through it the money market can obtain cash from the central bank directly instead of forcing the chartered banks to come to the central bank.

One of the features of a short-term money market, then, is that the central bank engaging in an operation there has to determine the interest rate at which it will do so. Practically speaking it wants to set an interest rate higher than that normally ruling in the market, so that it will only be a source of cash or funds in the last resort; we want the market to operate by itself as far as it possibly can. In dealing with the money market we decided to use the same rate of interest as that mentioned in the Bank of Canada Act—the bank rate—which may be charged on loans made to the chartered banks by the central bank. In this case we could give additional significance to the Bank Rate which hitherto had not very often been an operating rate. In fact, the Bank of Canada bank rate—the minimum rate at which we may make loans and advances to chartered banks—had been changed only two or three times in 20 years, prior to the year 1955.

In February of 1955, as a result of various improvements in the short-term money market which are referred to in our reports for last year and the year before, we decided to take a further step by bringing the bank rate into line with short-term rates generally. That required a decrease in the existing level of the bank rate, which at that time was 2 per cent whereas the treasury bill rate had fallen to .80 or .90 per cent. So we reduced the bank rate to 1½ per cent and made public the fact as we are required to do by law, and in addition to that we put out a public statement because we wanted to make clear why this change was being made. I think the statement made it clear that the bank rate change was made in order to effect an improvement in the operation of the money market, and the fact that there was a decrease was not to be taken necessarily as an indication that we felt that money should be still easier than before. Indeed it could hardly be, because in the latter half of 1954 interest rates had been declining and were pretty sure to rise again from such low levels. We did not want the bank rate to be too high in comparison with market rates and we put it down where it would come into touch with market rates that much sooner. That did happen in August, when we put it up to 2 per cent because the treasury bill rate, in particular, had been

rising ever since the 15th of February. If there are any further questions on that point I will try to answer them later on.

Another factor in 1955 was, as I said, the very rapid rise in bank loans after a slow start. I think everybody was surprised by the acceleration in the rate, particularly in the second half of the year. We realized, for one thing, that we did not have good enough information as to what was happening in the field of bank loans. We did have a weekly figure of the total loans, but very little idea of the elements which went into the total and the reasons why the total was increasing.

At our meetings with the chartered banks in September and November of last year we asked for information, in the first place, on capital loans which they were making, and asked for that information at the time the loans were being made; and, secondly, for a monthly report, instead of quarterly, as to loans outstanding, by various categories,—agriculture, grain, mortgage security loans, loans to merchants, loans to various branches of industry, and so on. Finally, after further consideration, we asked if the banks would agree to provide monthly information, not just on loans outstanding but on changes in lines of credit,—that is on loan authorizations—in an attempt to see whether they will give some advance indication of the trend of the actual amounts borrowed and outstanding later on. Very often a line of credit is increased or decreased months before there is any sign of it in the actual volume of borrowing by the customer at the bank.

I think we have made very considerable improvements in the type of information available to the central bank, to the chartered banks, and in due course to the public at large by those developments. In addition we found two factors operating in 1955 which had tended to make the market, the banks, and the economy in general, rather slow to respond to changing trends in monetary policy. One of these was a revival of interest by the chartered banks in the field of capital loans—in making term loans or buying directly from their customers security issues of a character which could be floated in the general market.

Mr. MACDONNELL (*Greenwood*): What name did you call that?

The WITNESS: Term loans, capital loans, the kind which could be floated in the general market and which could be—and which were in other years—loans for long-term capital purposes, as distinct from loans for immediate requirements for working capital.

This had two effects. It meant that the banks were taking on commitments to make these loans at some future time, and there was thus going to be a large increase in the actual volume of credit outstanding later on, without in the first instance, anybody knowing this was going to come about. It meant that the banks were tying up in that way funds they would have in the future without knowing, when that time came, whether they would need those funds for ordinary financing of businesses and individuals. It also meant that their customers were not going into the securities market, the long-term capital market, which was thus being insulated from the effects of the strong demand for money which it was desirable should be communicated to it. In order that people needing money should be seeking out those who had it, and in order that this should be reflected in interest rates, as it should be if interest rates are to reflect the true state of supply and demand, we suggested to the banks that they should refrain from making loans of this character. They agreed to do that. They still continue to make or they are not prevented from making, smaller loans of this character, but they are not making large term loans.

A third element which we thought was creating some difficulty last year had to do with the way in which banks were obtaining the money to go on

making an increasing volume of loans after the central bank had stopped, or was trying to stop, putting any additional money into the market. Normally when such a thing occurs banks have to sell investments which they already own—long-term or medium-term government bonds—and they have to find people to buy those in order that the banks shall have the cash to go on making loans if they wish to do so. Normally also they retain a reserve of the very liquid assets, of treasury bills and the like, which are really held just in case of unexpected developments, when it might not be possible to sell government bonds or, indeed, the bank might not have any government bonds to sell.

There has not been any standard practice in Canada as to what proportion of these very liquid assets the banks should keep except, in the case of cash only, we have the provision in the Bank Act which now says cash must average at least 8 per cent of deposits. In Great Britain there is an accepted standard that liquid assets, including cash, day-to-day loans to the money market and treasury bills of the national government, should be kept at 30 per cent or better of deposits. Any such figure would be impractical here for various reasons. We suggested, and the banks after considerable discussion agreed, to work towards a figure of 15 per cent in that respect. The actual level is not so important perhaps as the fact that the banks should accept the principle of not going below a particular level, and that the central bank should know it, and that all the other banks and the market in general should know it. When the same situation occurs again, as no doubt it will some day when the demand for bank loans again grows very rapidly, the effect of that demand will be more quickly communicated to the capital market, because the banks have agreed not to take the temporary and easy way of running down their liquid assets below 15 per cent.

There has been some discussion to the effect that credit restrictions were adopted. I do not think that is quite correct. It was even said, I think, that the Bank of Canada had asked, and the banks had agreed, to put restrictions on credit, but that a special exemption had been requested for the field of housing. Both parts of that statement are wrong. We did not ask for any restriction on credit and we did not suggest any possible exemption for housing loans. I might, at this point, read the section in the annual report, page 10, which relates to this:

Meetings were held between the Bank of Canada and the chartered banks on September 19 and November 21 to discuss the general credit picture. The September meeting led to the compiling of statistics on forward commitments already mentioned, and to the preparation of a classified analysis of bank loans on a monthly basis instead of quarterly as theretofore. At the November meeting, I expressed the view that the very rapid increase in the use of bank credit to finance business and personal expenditures had been well in excess of the rate of growth in the country's production which was physically possible once a condition of virtually full employment had been reached, and should not be expected to continue on the same scale. Requests for new and increased credits should be examined very carefully, and existing credit limits surveyed with a view to maintaining control over future growth. With such a policy, and the adoption of certain practices regarding term lending and liquid asset ratios, it was believed that the ordinary workings of monetary policy could moderate sufficiently the demand for and the availability of bank credit. It was not considered necessary as of that time, November, to propose any over-all ceiling or limitation and it was hoped to avoid such a measure in the future. Some continuing increase in total bank loans would very likely be required, but any tendencies toward

excessive use of bank credit by any category of borrower would have to be resisted.

I do not want to quibble on the use of the word "restriction" except to make the point that we have not suggested an actual decrease in the supply of bank credit. We did suggest that growth had been going on very fast and while there might be some future growth it could not be expected to continue at as rapid a rate. It has taken a little time for our prophecy to prove true. Bank loans have been rising rapidly in 1956 but I think there has been some change in attitude throughout the banking system and among bank borrowers.

Now, as we all know, shortly after the end of 1955 new figures were published as to capital expenditures expected to be made in 1956 by all branches of business and farming, by private individuals and governments. They show that the intention apparently was for a very large increase in spending of that character, and that is why a large increase in the demand for money could be expected; money to pay for the goods and services needed to carry on the expansion of industrial plant and equipment, of roads and highways and so on. All these are, no doubt, things that would seem individually very important and desirable, but the total was such that it was more than the economy could efficiently accommodate, and this gave rise to a general feeling that there were strong inflationary pressures still operating in Canada.

This feeling is perhaps reinforced by the fact that our imports have been rising quite rapidly. We have in Canada what, in some ways, could be called a safety valve in that if inflationary pressures get too bad here they tend to spill over into the United States and other countries, and we tend to go there to get those goods and services which cannot be produced here, or rather, to get an additional quantity more than we can ourselves produce. We also have a tendency and, fortunately on the whole, an ability, to go to the United States and other countries to get the money to pay for those goods and services which we want. However, the need for imports might not be satisfied in full, and that is why one can conceive of inflationary pressures being so strong that, notwithstanding the ability to get some imports, particularly of capital goods from the United States, we would still be in danger of internal inflation in Canada. Under those conditions the great competition among borrowers of money leads to a rise in interest rates. This increases somewhat the supply of real savings and also tends to create a differential between interest rates in Canada and abroad; and some people will find it advantageous to borrow money abroad. There you get the financial counterpart, influenced by the kind of monetary policy we pursue, of the physical fact that under this condition an increased volume of goods can be obtained only from abroad.

I am sure that I have left out a great many things which I might have mentioned. I did not bring up to date the history of the bank rate position. We reduced the bank rate from 2 per cent to $1\frac{1}{2}$ per cent on February 15 last year and raised it back to 2 per cent on August 4, to $2\frac{1}{4}$ per cent on October 12 and to $2\frac{3}{4}$ on November 18. At that time it was one-quarter of one per cent above the American rate. This spring, after an intervening period and some softness in the outlook, especially in the United States, the situation tightened up again, so in Canada we raised the bank rate early in April to 3 per cent. A week later all but two of the American Federal Reserve Banks, but including the federal Reserve Bank of New York, moved up to 2 and three quarters per cent, and the remaining two moved up to 3 per cent. That is where the matter stands at the present time.

The CHAIRMAN: Gentlemen, I propose to read to you at this time the terms of reference by the House to this committee of this annual report of the Bank

of Canada, because later on we must bear in mind what type of report we should make. It reads:

Order of reference, Friday, May 4th, 1956. *Ordered*—That the report of the Bank of Canada for the year ended December 31, 1955, tabled Thursday, March 1st, 1956, be referred to the said committee.

In other words, the order of reference does not direct that we make a report. The report of the Bank has simply been referred to us. So when we make our report to the House we are not within the terms of reference if we make recommendations but we must make some suitable report.

Now as to the questions which the members may wish to ask Mr. Coyne, would they please take them in order and indicate who wishes to ask questions? Mr. Macdonnell.

By Mr. Macdonnell (Greenwood):

Q. I would like to ask one or two preliminary questions. Would Mr. Coyne just say a word to us about the situation before the Bank of Canada came in? I have a general idea that operations were carried on under an act called the Finance Act, whereby the Treasury Department did act as a sort of coordinating influence. Could Mr. Coyne say a word or two as to the operations of that act, which began during the first war?—A. That was a little too early for me to have very much knowledge of it. You had the rudiments of a central bank there.

Q. The only reason I ventured to ask that question was that there was not unanimity of opinion at the time of the MacMillan report, and there were dissenters.—A. Yes. Whether or not they were wrong at the time, I think they have more or less disappeared now. I do not think anybody now says that we should not have a central bank because activities have become so complex that more and more the machinery of the Finance Act, which was really rudimentary, would not be able to do the job.

Q. Its chief purpose was to give the banks some recourse when they were in need of the kind of assistance which the central bank gives now?—A. Yes, but it left the initiative entirely to the banks.

Q. I have a question in regard to interest rates. Could you say a word in general to us as to the effect which the bank rate—which has almost magical significance in England—as to the effect it has had on business, or in our thinking, or the effect it has had on the bank rate which you said remained practically unchanged for twenty years?—A. It was not unchanged. Let me see if I can recall it. It was set at two and one-half per cent originally, I think, and it was reduced to one and one-half per cent in 1944 as a means of suggesting that there would be plenty of money for business to meet post war difficulties; and it was increased to two per cent in October 1950 after the Korean war started and when we had a rush of money coming into Canada at that time. That was part of the whole program which included the abandoning of a fixed exchange rate. It then remained unchanged from October 1950 until February, 1955.

It was used at first as a signal. Central banks do not like to make precise statements and to say "we think the situation is going to get better or get worse", or that any specific thing is going to happen. But people can form their own conclusions or opinions from what the central bank does, and one of the things which could be done at that time was to raise or to lower the bank rate. It did not have any operating significance for us in the money market because we did not have a very broad short-term money market, and we did not know what big or what little effect a change in the bank rate would have upon other markets and on long-term rates, and so on. It was just a signal of a major change in the general economic situation. Perhaps that is what it has been mostly used for in the United Kingdom, and I think there, as elsewhere,

there is a tendency now to make the bank rate much more flexible and to make changes in it more often.

There they have a tradition of raising it by one per cent at a time and of reducing it by one-half of one per cent at a time. That is according to an old tradition which they have. But here and in the United States,—and I think it is agreed since 1950 in both countries—the practice is now to prefer smaller movements of the bank rate, because a large movement would have too much of an impact. There should not be undue delay in making changes. You can make them at one-quarter of one per cent at a time or at less than that. In that way you try to keep abreast of developments in the money market and in the supply and demand for funds of all kinds, and it has now become an operating factor as well as a symbol or signal.

Q. Speaking of Canada?—A. Yes, and of the United States, and for the United Kingdom too, although perhaps to a lesser extent there; and we feel that that is a method which is best suited to our situation.

Q. Did you not say that it would have less of an operating effect in the United Kingdom?—A. No, I do not think I put it that way. I said that it still carried much more of the significance of a major signal.

Q. In the United Kingdom?—A. Yes; whereas in the United States and in Canada it was more of a minor signal and was more frequently used as an operating factor of monetary policy.

Q. Could you go any further in England and say that the rise of the bank rate—you reminded us that it was made as much as possible at one per cent at a time—that it had a more important economic effect on general business?—A. Sometimes it did, and sometimes it did not. It always had some effect, of course, but it may have lost some of its magic from that point of view. For example, they have increased it a number of times since the war, and a number of times in succession because presumably there were very strong influences at work there, so that any one movement of the bank rate was not sufficient to counteract those influences.

Q. I was interested to read the other day that in one or two of the joint stock bank reports they referred to the increases last autumn in most contemptuous terms “mangy mice”, as an indication that it was utterly inadequate for the job. What would you say as to that? I am not asking you to criticize them, but what can be said about this increase?—A. It is a bit embarrassing to comment because there was a lot of argument going on in the United Kingdom and we do not want to take part in it. The point was made by some that their monetary action should be reinforced by cutting down government expenditures and controlling the capital investments of nationalized industries. There was a lot of argument going on as to what kind of measures were needed over there. Some people were inclined to say that those monetary measures were inadequate, and that much more had to be done.

Q. You pointed out that in the first 20 or 22 years of the bank's history there were few changes, while we have had four or five changes in the last few years. Is there any disadvantage in itself in having frequent changes? Does that tend to make business timid? Does it represent a change in the policy of the bank itself?—A. It does not come out of the blue sky. If it did, if there was something unpredictable about it, it might indeed have a disturbing effect. I think the smaller the change at any one time, the less disturbance there would be.

The interest rates change every day and the central bank exerts its influence, or refrains from doing so, which is just as significant, every day in the year. We could move the bank rate every day in theory, but since it is intended as a rate of last resort, it is not necessary to move the bank rate every time there is a movement of one-sixteenth of one per cent in the

treasury bill rate. So you do not move the bank rate unless there has been a movement of other interest rates preceding it, not necessarily of the same magnitude, because there cannot be an absolutely fixed relationship between the bank rate and other interest rates. But almost always you will find there has been a movement in the same direction as the change in the bank rate but antecedent to it.

That was the case in our last change on April 4th, for example; interest rates had been rising for some time, for some weeks indeed, prior to that. There is always a problem for the central bank as to the timing of the change in the bank rate, but the trend is more and more to change it in conformity with the general market.

Q. I realize that it is hard to be dogmatic about whether it is a case of cause or effect. I suppose it is a little bit of both.—A. Yes.

Q. But I am surprised, because I have a feeling that in England at any rate the bank rate is regarded not mainly as an effect, but almost exclusively as a cause. Would that be a fair statement to make in regard to England?—A. I hesitate to pin-point myself absolutely to that statement, because it is apt to lead you to say that if it was cause, then why was it not done a month or six months earlier, or was it only done after things got out of control? I do not know what principle was at work in connection with it, and I would find it very difficult to discuss it in relation to another country.

Q. I shall give way now and reserve my further questions until later.

The CHAIRMAN: Mr. Fraser.

By Mr. Fraser (*Peterborough*):

Q. Mr. Coyne, on page 3 of your report you have this to say:

The capacity of the economy continued to increase at a more or less normal rate - - -

Owing to the fact that at the present time in the United States alone they have over 900,000 automobiles in storage, while we have about the same proportion in storage in Canada, what effect will that have on the economy of Canada because sales have definitely dropped off during the last month, or since March?—A. I think that the movement has been much more pronounced in the United States than in Canada.

Q. They are worried about it there.—A. It now appears that the automobile industry oversold the market in 1955, certainly in the United States, and perhaps in Canada, but production here has kept up pretty well and sales have kept up pretty well these last few months. There has not been anything here like the drop there has been in the United States, so the effect would be an indirect result of what is happening down there; and if the drop in automobile sales and production and employment in the United States was such as to throw a bit of a chill into business, for instance, then it would have a very important effect upon us too.

Q. Another question: at the present time with respect to preferred stocks in Canada, the interest rate in them, or the dividend rate is rising, while on common stocks the dividend rate is going down. That means that the money market is getting a little tighter, and I wondered if that would have any effect on the interest rate given by the chartered banks to their depositors?—A. I do not think I can follow through that far. That would be quite a long chain of cause and effect, but certainly the rise in the stock market prices has the effect of reducing the yield that you get on your investment there. On the other hand falling bond prices and the rise in the coupons of new issues have an effect of increasing the yields at which you can put your money in bonds. A

narrowing of the differential generally has an influence on business and on private individuals. It may be that bond yields are now higher than stock yields, but I am not in close touch with it.

Q. Dominion bonds have gone down in price. You buy them on the market, of course?—A. We buy at times, yes, partly for reasons of monetary policy in the ordinary sense as I have explained, and partly in the interest of maintaining an orderly market. We would not attempt to buy them all in at any given level of price, but we have been buying bonds the past few months. In that case other people have been selling them, and that brings about some increase in the money supply which might be justified, although it has been very small recently.

Q. A member said yesterday that it was pretty hard to borrow from the chartered banks on government bonds at the present time. Why would that be?—A. It would be, if it occurred, because the bank concerned would itself have to sell a government bond at a loss in order to realize the funds to make that loan, and it might prefer to have the customer make the sale of his own government bonds and thereby take the loss rather than the bank having to take it. I am quite sure that loans are still being made by the chartered banks on government bonds, but they might turn them down in some cases.

Q. They would safeguard themselves with a margin, would they not?—A. Oh yes.

Q. They would have to take quite a margin?—A. Yes, but they may be less ready to lend against government bonds now that they cannot get the additional cash to support a higher volume of loans and deposits. When the banks lend money today it means that they have to sell some other assets of equivalent value.

Q. With regard to the unfavourable balance of export trade now in Canada which is over \$300 million, would that have an effect on our money market here and on the interest rate? Does that have any effect on them?—A. You might say that if people had to raise money with which to buy goods from abroad, and the public as a whole had to raise funds to do that in excess of funds coming in from abroad, that would be a factor in the money market; but you have money coming in from abroad, for example from the sale of goods and from capital borrowings by governments, and by business, and from the sale of securities and so on; and all these various factors have a strong influence on the market and against each other; and the final outcome is to be found in the general level of security prices and in the interest rate.

Q. You said that a number of these Canadian firms are financed in the United States because they can get cheaper money. What is the differential in the United States on these loans?—A. Well, it varies undoubtedly with each individual case.

Q. On first class securities?—A. For national government securities the present interest yield at market prices in the United States would be about one-half of one per cent less than it is in Canada. Individual Canadian corporations, municipalities, provincial governments, hydro electric systems, and so on, might do as well as that or find that their savings run less than that.

Q. What about the exchange rate? What effect would it have?—A. It depends on the balance between all the factors representing money coming in or going out. Again, it shows up in the exchange rate, which here is a flexible rate, not a pegged rate, and which is affected by the supply and demand in the market with only a moderate official contribution provided on one side or the other. By contrast in a country with a fixed rate the authorities must put all the exchange into the market demanded at that rate, or accept all the exchange within the market offered at that rate.

The CHAIRMAN: Mr. Cameron.

By Mr. Cameron (Nanaimo):

Q. I would like to revert to the question of the effect of changes in the bank rate. I am not sure if I understood you. It seems to me you said that changes in the bank rate hitherto have been largely symbols, shall we say, or warnings to the economy, and that you felt that bank rate changes now are becoming more of an operating factor?—A. Yes.

Q. Would you mind elaborating on why this would be the case now and not before?—A. Yes. Suppose the bank rate was two per cent and treasury bills were yielding one and three-quarters per cent which might be a fairly normal differential between them, although it is not fixed. If the demand for treasury bills falls off and the yield rises, treasury bills might go to two and a quarter per cent. At that point anybody who could borrow from the central bank might say: "let us go and borrow money at two per cent from the central bank and invest it in treasury bills from which we will realize two and one quarter per cent and take one quarter per cent by way of the differential." It might even be less than that. It would be a "free ride". That is one reason why if short term interest rates are raised you would want to have the bank rate raised at the same time. But that would not be true at a time when you did not have these short term money market arrangements giving access to the central bank which began only three years ago, and at a time when the chartered banks were not of a mind to borrow from the central bank. For a long time they thought it was rather indecent and they did not do it. You did not then have the connection between the chartered banks and the short-term money market. But beginning in July 1954 the chartered banks agreed to put out money to the market at "call". It is "called" every day. They will lend to specialized dealers at a rate somewhat below the treasury bill yield or the yield on other short-term securities, but they may need the money tomorrow and they will "call" it back again, whereupon the dealer will have to find his money somewhere else, either from another bank, in the last resort from the central bank.

Q. Would you say, Mr. Coyne, that that makes the power to alter the bank rate a weapon for the control of inflation, or the reverse?—A. It is a useful instrument among the various operations which the central bank can take to exert influence on inflation, or the reverse, yes.

Q. Would you think it would be very decisive by itself?—A. I do not think any one thing is decisive by itself, no.

Q. In tying on to that, I would like to deal with the other weapons you have of controlling things you deal with in your report, to some extent. I notice that you have laid great stress on the convention that you have come to with the chartered banks with regard to the ratio of liquid assets. Am I right in thinking that you consider those of great importance because the other weapon, the traditional one, of control of the cash reserves, has not been too effective?—A. No, that is putting it too baldly. This will make it easier, I think, for central bank action to be felt, and to create its effect without very violent central bank action having to be taken. Let us suppose that there was a time when central bank action would reduce bank cash by \$10 million in the banking system as a whole, or for any one bank, for that matter. If that bank felt, "Well, we will just not renew treasury bills to that extent, we will get our cash back again in a few days time," that is all right if it is going to be a very temporary situation. But, if it is at a time of expanding loans and continuing need for cash on the part of the banking system it is undesirable that they should sell treasury bills, or let them drop for more than a few days at a time. They should restore them, and in order to do that they will have to sell something

longer than a treasury bill, and something which will have some influence on the whole market, the whole capital market, by the fact that there is a selling pressure there.

Q. Would you agree, Mr. Coyne, that the measures we took two years ago, really to give legislative authority to the statutory requirements for cash reserves, because that is what it actually was?—A. Yes.

Q. The disparity was so great before; would you agree that a great part of the effectiveness of that measure was due to the flexibility that it provided? It did not merely raise the statutory requirements, it gave you a field to manoeuvre?—A. Yes. It allowed the banks to let their cash fluctuate more from day to day, provided they maintained an average every month.

Q. But did it not also, on the other hand, allow you to affect the total money supply more effectively because you had that range?—A. You mean the power that was given to the central bank to raise the cash reserve requirement?

Q. Yes, to alter it between limits.—A. No, I do not think it gave us a flexible instrument at all. I think it gave us an emergency instrument which would not very often be used. I hope the occasion to use it will never arise, but it might.

Q. With the convention that you spoke of here, supposing there was a conflict between the interests of the chartered banks, and what you, as the governor, considered to be the interest of the Canadian economy, would there be any way in which you could enforce this convention with regard to the liquidity of assets?—A. There is no legal basis for it, no law on it, no. I do not think there would ever be any real conflict between the interests of the chartered banks, properly considered, and the interests of the Canadian economy.

Q. Properly considered, yes; but of course, it depends on who does the considering.

By Mr. Macdonnell (Greenwood):

Q. You mean considering it according to the views of the Bank of Canada?—A. No, I mean considering it after discussion from all points of view.

By Mr. Cameron (Nanaimo):

Q. You do not consider you would be in a better position to carry out the job that was given to you when you became the governor, to regulate currency and credit, that you would be able to do that better if that convention were placed on the same statutory basis as the cash reserve provision?—A. I am confident it will work the way it is. I may be proved to be wrong, but I do not think so.

By Mr. Quelch:

Q. Just following that point, in order to enforce the action, you could always warn the banks that if they did not maintain that liquid position you might find it necessary to increase the cash reserve requirement, and in that way you would have the power?—A. Yes. I mean you could make a threat, but I do not think that is a very good way to go about things.

Q. Hardly a threat, it is a stating of fact that it would be necessary.—A. No. You would have the additional disadvantage that it leaves it to them to make the choice. There might be very good reason from our point of view why we would not want to raise the statutory cash minimum but would want to see the conventional liquid asset minimum ratio adhered to.

Q. What are the main reasons for the big difference in the cash requirements in Britain and Canada? I think you said 30 per cent of—A. Liquid assets, not cash. It has grown up there as a matter of practice.

Q. What is the cash reserve required there?—A. 8 per cent.

Mr. MACDONNELL (Greenwood): Could I be allowed, before we leave this to ask a question relevant to what has been going on, or would you rather I wait?

The CHAIRMAN: I would rather you wait, because one question leads to another, Mr. Macdonnell.

Mr. MACEachen: Mr. Chairman, I was interested in some of the comments that the governor made about monetary action. I have the opinion that whatever value monetary action has in this field, it is principally confined to combating inflation. There are no real positive measures you can take to combat deflation, are there?

The CHAIRMAN: It is hard to hear you, Mr MacEachen. Would you speak louder, please?

By Mr. MacEachen:

Q. I was expressing the view—A. I got the question. I am not sure whether the reporter did.

Q. I want to know, first, whether you agree with that view and secondly if you do not agree with that view, would you illustrate the type of action you did take in the beginning of 1955, and if you did not take any action, what action you considered and rejected?—A. You want to go back really to 1953 and 1954, I think. I think you would want to go back earlier than the first part of 1955, because the condition you speak of began in late 1953. Now, first on your general theoretical point, I do not know what the answer is, whether the powers of the central bank are more effective as against inflation than against deflation. That may be true. Of course, inflation is popular in many quarters, or the conditions that breed inflation are popular in many quarters; and the central bank, in some ways, is the only body which is specifically charged with the duty of fighting against it. Therefore, we have to take that responsibility very seriously. We take equally seriously our responsibilities in the other directions. When you get into a condition of depression or recession with less than adequate monetary demand for goods and services to be produced in the country, there are any number of different measures that can be taken by different people both in the federal government's sphere and outside it. It may be that merely providing an adequate, or more than adequate supply of money and availability of credit is enough, but there are often too many influences affecting people's minds so that they do not take advantage of the credit which is available.

By Mr. Macdonnell (Greenwood):

Q. Perhaps you need a psychologist and not a banker.—A. Yes, a banker has to be quite a psychologist too, but he knows there are limits to the influence that he can exert in his own proper sphere on the psychology of people. Now, in fact, beginning in 1953, and certainly throughout 1954, plenty of money was available, interest rates were falling, and banks had more cash available than they needed for loans. As I said earlier, in order to employ that cash, they went around buying securities, government securities, on the market, and in that way put much more money in the hands of the people who previously had those securities. That is about all, in the proper sphere of monetary policy, that can be done. The business of urging people to spend, and to undertake investment, or doing it instead yourself as a government can do, that is outside the hands of the central bank.

By Mr. MacEachen:

Q. From your remarks, Mr. Coyne, it seems that once the central bank has made credit available, the money may just sit there and nothing happens. That is not useful action. If that is the conclusion, I think that it is about time we realized in Canada and in the House of Commons that monetary action is very limited, and hardly a useful instrument to overcome a real deflation.—A. I do not think anybody ever said it could overcome a real deflation. It is absolutely essential, of course. You cannot overcome it without appropriate monetary action. On the other hand, monetary action may not be sufficient by itself. It depends so much on the circumstances.

Q. I cannot conceive of a situation where monetary action would be, by itself, helpful. It would be helpful, but not decisive.—A. It was helpful in 1954, I am sure, both here and in the United States. I will not say it was decisive, but there were various factors. For example, there were cut-backs in defence spending in the United States, very large reductions in the placing of orders quite apart from the deduction in the spending of money after those orders were made, which affected the minds of businessmen all over the country. People had been accumulating inventories thinking business was going to be good. They decided in many cases that their inventories were large enough, or too large, and started to reduce them. That sort of thing goes on until something happens to make people change their minds again. One of the things that helps in that direction, undoubtedly, is an adequate supply of money and credit to finance inventories, and to finance new programs for the future, and so on.

Perhaps there is still a lot to be learned, I am sure there is in the administration of monetary policy, as to how big an effort you have to make and how long a time you must wait before you see the results of it. I do not claim that a monetary policy can work wonders. I think it has an essential and very useful job to perform.

By Mr. Enfield:

Q. Following along that same line of thought, Mr. Chairman, the thought strikes me that the bank's action on the other side of the page, in regard to inflation, is certainly very decisive; and I rather thought that when Mr. Coyne was remarking that no credit restriction, or certainly no strong credit restrictions, had been imposed, he might have had his tongue in his cheek a little bit, because we still realize when you get down to the practical level of trying to get a loan from the bank, here is the story you get from the local bank manager, that no new line of credit is to be established; because he has been told that the banks have entered into some sort of an informal agreement not to extend any new line of credit. I have checked this with several of the local bank managers in my area, and this is exactly the story one receives. In addition, in the metropolitan Toronto area I do not think there has been any activity, or certainly very little in the field of mortgage loans under the National Housing Act in 1956. So that it would seem to me that your view that no credit restrictions have been imposed would need some modifying, or some further explanation.—A. Of course, when more people want money than there is money available, and more people want goods and services to erect buildings than other people are willing to give up for that purpose, when the demand exceeds the supply in that physical sense, somebody and some individuals are going to find they miss out. Any monetary policy, of course, is designed to prevent there being too much money which would lead to money being used as an instrument of competition to bid up the prices of all goods and services.

We must have some limit on the supply of money, obviously; and some people, therefore, are going to find that it is the money they cannot get. They do not have it themselves and they cannot borrow it. But, other people are borrowing it. Business has not come to a stop. Bank loans are going up, new commitments are being made for housing mortgages all the time. Some banks are perhaps finding they have less desire to make loans of that sort than other banks; but even those that have said that they will not take on large projects are making loans to individual applicants who want to buy a new house, or are making mortgage loans. Every bank in the country, I am told, is doing that; and even those who say they are not now taking on projects have in fact taken on a great number of projects this year, and the figures bear this out. I am sure there are some people who have been disappointed and who have either not got a loan at all, or have not got as much as they wanted. But, the total of bank loans is very large, and it is increasing.

Q. Is it not a fact that normally you use the price levels so far as inflation is concerned?—A. It is a symptom of trouble when it finally occurs, yes.

Q. In your report on page 4 you make the statement that during 1955 prices remained relatively stable. How do you equate that with the obvious concern regarding influences that your report expresses?—A. There were very strong expansionary influences, shall we say, rather than inflationary influences. Prices outside the field of agriculture were rising. Agriculture prices, as we all know, were falling.

Q. Yes.—A. I do not believe there is any connection between the two. I think it was just a fortunate accident, fortunate for the economy as a whole, and unfortunate for the farmer. Agricultural prices were declining at the time, but other prices were going up. If it were not for this world situation respecting agricultural prices we would have had an over-all rise in prices in North America last year, with exactly the same degree of pressure as we did in fact have. Now, agricultural prices are not going to go on falling indefinitely. They seem to have turned now, as a matter of fact. If the same pressures affecting non-agricultural prices continue we will have a rise in the price level in 1956.

Q. Can you say this, that the inflationary tendencies are in particular fields, in particular lines of activity such as perhaps construction, that are facing the inflationary tendencies, rather than general?—A. It is hard to say. There were a number of inflationary tendencies, and there was only one opposite tendency. Construction was certainly very strong and looks as though it will be even stronger this year than it was last year. Consumer spending was stronger and yet quite a fair degree of saving was being carried out. If you mean that there was some particular trouble-spot which somebody should do something about, that is outside my field.

Q. The Department of Labour this winter sparked a nation-wide program to modify the effects of seasonal unemployment. At the same time, your department adopted this anti-inflationary program starting about January; I believe that was when the banks really started to put on pressure. Do you see any sort of inconsistency there in government policy? I know you are aware of this because on page 11 of your report it says:

Seasonal influences, which usually cause a decline in the volume of loans outstanding after mid-November, this year slowed down the rate of increase.

Now, do you not think that your policy, instituted at that particular time, was in conflict with some other policy that tried to modify it?—A. I do not think there was any conflict at all. In the first place our policy started early in 1955; interest rates started to rise early in 1955 and went on rising through-

out 1955. The particular impact on the chartered banks may have been more pronounced in January 1956. If you tell me so I am prepared to believe it. In any event, I do not think that monetary policies have any influence on seasonal unemployment. You will find we can have rises in unemployment at one season and declines at another season with any level of over-all activity. I doubt if monetary policy can be helpful in overcoming specifically winter unemployment.

Q. You do not consider that a big factor?—A. When I spoke of seasonal influences as affecting bank loans, that is another thing. That arises out of the fact that at Christmas everybody buys a lot and the merchants' shelves are bare, and they are able to pay off their bank loans; but it has nothing to do with the state of unemployment.

By Mr. Benidickson:

Q. Mr. Chairman, Mr. Coyne did make one quotation from his report which I think has a relation to the question asked by Mr. Enfield. When the governor says that at a November meeting with the banks he expressed the view of a very rapid increase in the use of bank credit to finance business and personal expenditures, it seems to me it is a natural thing for this committee to look to the next quarter to see if we could get any figures as to what results have come from the meetings with the banks in September and November, or whether there is anything notable yet. I think that we have to look at the table on page 6 of the report. Would Mr. Coyne project that report on bank lending to give us some figures for the first quarter of 1956?—A. Yes, I can do that. Looking specifically at the category of general loans, there has not been any slowing up in the first quarter of 1956 in the rate of increase. The increase was \$255 million.

Q. That is still a bigger increase than in the fourth quarter of 1955?—A. A little bigger than in any quarter of 1955. The banks believe that this resulted from customers making use of credits which had been authorized in 1955. If things had really got out of control and it was necessary to apply a real restriction, I would have had to ask the banks to reduce their authorized credits. That would upset people's programs built up on the assumption they could use their lines of credit. We did not think that the situation required that action, and I do not think it will. From the feel of things we are told by the banks that they think the rate of increase is tapering off and will level off quite a bit; but no one can say for sure whether there should be some further increase or no further increase. Again, we all hope to see some expansion in our total economy every year. It is particularly difficult merely to look at the quantity of money or volume of bank deposits and say that figure is too high, or too low, or just right. Even if we could by some miracle figure out what amount is just right for the situation today it would be different tomorrow and next week. The volume of money in active use, including that which is in active bank deposits, is going up and down from day to day. You also have a considerable volume of savings deposits which are dormant. In some circumstances people who have been content for years to leave their money lying idle in the bank may decide they are going to spend it and any theories you had regarding the appropriate quantity of money are quickly upset. You have to look beyond the mere quantity of money to the volume of spending of all kinds that is going on.

Q. The question was raised on insured mortgages. I was going to ask a similar question in respect to the first quarter of 1956 as to what lending has been done by banks on insured mortgages?—A. Again, it would be really because of commitments they entered into long ago. The net outlay on insured mortgages by banks in the first quarter of 1956 was \$51 million; the gross was considerably larger. The banks found that they could sell some of those mort-

gages to other investors and raise money in that way. So the net increase in their mortgage loans is not nearly as big as the total amount of new lending would indicate. That is a very interesting and useful development. Under the National Housing Act there are only certain types of approved lenders. They must administer the loans they have made, do the collections and so on, and see that the taxes are paid; but they can sell the loans as such to other approved lenders or to people who are not approved lenders such as pension funds and private individuals. We are hoping to see the development of a secondary mortgage market, in insured loans especially in which savings accumulating in some form other than bank deposits can be used to buy mortgages from the banks and life insurance companies.

By Mr. Cameron (Nanaimo):

Q. Has there been a noticeable market developing?—A. I would not say there was an organized market, but there has been a demand.

Q. Mr. Towers expressed the same hope in 1954, that there would be a development of the mortgage market.—A. One hears about efforts being made to organize specific institutions for that purpose and we will give them help in any way we can although it is not directly in our sphere of operations.

By Mr. Benidickson:

Q. When Mr. Coyne was describing the changes in the bank rates taking place in Canada in 1955, he also mentioned 1956 and at the same time made some reference to the rates in the United States. Could he give us some recent bank rates for the United Kingdom?—A. I do not have the exact dates handy, but in 1955 the United Kingdom increased the rate from 3 to $3\frac{1}{2}$ per cent, and then later to $4\frac{1}{2}$ per cent, and early in 1956 increased it to $5\frac{1}{2}$ per cent.

By Mr. Hollingworth:

Q. I was interested, Mr. Coyne, in your observation about inflationary tendencies in this country, and I presume that the raising of the interest rate is a real deflationary step. Have agricultural prices risen in 1956, and is that the reason, along with the continued expansion in this country, that you feel there is an inflationary tendency at the present?—A. I would not say there is an inflationary tendency, but there are strong forces of demand which some people think are excessive. People looking at these figures for investment say it is not physically possible for that to be done and, therefore, the attempt to do it as evidenced by the continuing rise in the demand for money, would indicate strong pressures. I hope that those pressures will be moderated. They express themselves, quite apart from any action of the central bank, in the rising interest rates as a symptom that the demand for money is greater than the supply of savings. That will have some influence simply by itself. The rise in interest rates will encourage savings and discourage borrowing to some degree. In addition—again quite apart from the central bank—a feeling develops when the demand for money is very large which tends to make lenders more cautious and more choosy. Some borrowers find that they cannot borrow at 4 per cent and shy away from borrowing at 5 per cent. Others say, “we do not care what the rate of interest is which we pay”, but they may find that the lender will not lend even at 5 per cent or 6 per cent. The lender might simply say, “we do not think we want to lend to you at that rate of interest” or “we do not think your enterprise would support that rate of interest”. There are all sorts of reasons why a rise in the rate of interest will encourage savings and, to some extent, discourage borrowing.

I am not upset by the rise which has been taking place in agricultural prices. I only pointed out that they were falling in 1955 and that they were the only sector in which prices were falling significantly. They are not falling now; they are rising a bit.

Q. I thought the interest rate was rather too drastic because the information I have regarding what the chartered banks are doing now is that it is rather unfortunate. I have had the same experience which Mr. Enfield has had in Toronto that it is quite difficult for a person to get a loan from the banks and that builders are going to the insurance companies rather than to banks to get loans. It is my experience that practically the whole source of mortgage loans from banks has dried up this year.—A. I do not think that will be general or that it will be permanent. It is possible that the total volume of money made available for housing mortgages will be smaller this year than last year. It is possible that there might be more of it done outside the National Housing Act this year and less done inside. I can quite see the possibility, either because of the other demands for money or for other reasons which are also operating in the housing market, that you might have some decline in the volume of housing loans this year over last year, which was quite a big year.

Q. I read in the *New York Times*, I believe, that industry in the United States is cutting down in the number of hours being put in by the workers. For example, I believe the automobile industry is working one day less. Would you say that is a possible harbinger situation peculiar to the United States or do you think it is anything to worry about?—A. I think it is too soon to say. Most indications in the United States are that automobiles, farm implements and one or two other things have slumped a bit but they have had very little impact in this country. I do not believe there can be any permanent decline in the demand for automobiles. I think people on this continent will go on having one, two or three cars, as many as they feel they need, and, taking a longer view, there will be a very large production of automobiles in the future in the United States.

Q. One often hears it stated that if there is a recession in the United States we would probably feel the effects of it about six months later. Do you consider that would be true, and if so can we do anything in respect to our fiscal or monetary policy to prevent a recurrence of the conditions in 1954?—A. No one can tell at any given moment whether the development in the United States is going to be transitory or not. It might go on, and it might change. No one, I believe, has ever been able to figure out how much that development will affect Canada, if at all. While we are subject, certainly, to major movements elsewhere, we can also be disturbed by upsets in our own economy.

Perhaps I had better leave the second part of the question.

Q. First of all, does the Bank of Canada have any control over fiscal as well as monetary policy?—A. We have no control at all over fiscal policy.

Q. What steps would you outline to prevent a recurrence of what happened in 1954?

Some Hon. MEMBERS: It is one o'clock.

The WITNESS: That gives me a day to think about it.

The CHAIRMAN: If I can get a committee room we will meet again at 11 a.m. on Thursday. Otherwise, we shall next meet on Tuesday, May 22nd.

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Canada Banking and Commerce
Standing Cmtee on 1956
HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

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STANDING COMMITTEE

ON

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BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 10

The report of the Bank of Canada for the year ended
December 31, 1955

TUESDAY, MAY 22, 1956

WITNESS:

Mr. J. E. Coyne, Governor, Bank of Canada

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

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| Argue | Gour (<i>Russell</i>) | Philpott |
| Ashbourne | Hanna | Power (<i>Quebec South</i>) |
| Bell | Henderson | Quelch |
| Benidickson | Hollingworth | Regier |
| Blackmore | Huffman | Richardson |
| Cameron (<i>Nanaimo</i>) | Low | Robichaud |
| Carrick | Lusby | Rouleau |
| Crestohl | Macdonnell (<i>Green-</i> | St. Laurent (<i>Temiscouata</i>) |
| Deslieries | wood) | Stewart (<i>Winnipeg</i> |
| Enfield | MacEachen | North) |
| Eudes | Macnaughton | Thatcher |
| Fairey | Matheson | Tucker |
| Fleming | Michener | Valois |
| Follwell | Mitchell (<i>London</i>) | Viau |
| Fraser (<i>Peterborough</i>) | Monteith | Vincent |
| Fraser (<i>St. John's East</i>) | Nickle | Weaver |
| Fulton | Pallett | White (<i>Waterloo South</i>) |

Eric H. Jones,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS,
TUESDAY, May 15, 1956.

Ordered,—That the name of Mr. Bell be substituted for that of Mr. Charlton on the said Committee.

Attest.

LÉON J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

TUESDAY, May 22, 1956.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Ashbourne, Bell, Blackmore, Cameron (*Nainimo*), Carrick, Deslieres, Enfield, Fairey, Follwell, Fraser (*Peterborough*), Hanna, Henderson, Huffman, Hunter, Macdonnell (*Greenwood*), MacEachen, Matheson, Philpott, Power (*Quebec South*), Quelch, Regier, Richardson, Viau and Weaver.

In attendance: Mr. J. E. Coyne, Governor; and Mr. R. W. Lawson, Deputy Chief, Research Department; both of the Bank of Canada.

The Committee continued its consideration of the report of the Bank of Canada for the year ended December 31, 1955.

Mr. Coyne was further questioned, in the main on the principles, techniques and practices of central banking.

At 1.00 o'clock p.m., the Committee adjourned until 11.00 o'clock a.m. on Tuesday, May 29, 1956.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

MAY 22, 1956,
11.00 A.M.

The CHAIRMAN: Order, gentlemen, I see a quorum. Would those who wish to continue with questions please do so?

Mr. J. E. COYNE, Governor, Bank of Canada, called:

By Mr. Macdonnell (Greenwood):

Q. I would like to ask some questions about the relationship between the bank and the Department of Finance, questions of responsibility and authority. You will recall I think that two years ago when Mr. Towers was before the committee at the time of the revision of the Bank Act, those questions arose. I do not remember the exact words he used but I believe I would be correct in saying that when he was asked about the relationship he said in effect that if there was any difference on which he felt it necessary to take a stand, the only recourse for him would be to resign; in other words, that he was the servant of the Department of Finance. Is that a fair summary of your opinion of what he said?—A. No, Mr. Chairman, I do not think he said that he was the servant of the Department of Finance.

Q. You will correct me to whatever extent is necessary. I would suggest that you should make whatever correction is necessary in my phrasing. Mr. Abbott expressed the same view. I had hoped to have the quotation before me this morning but I have not got it?—A. Would it not be more correct and nearer to what they said, to say that both Mr. Towers and Mr. Abbott pointed out the responsibility resting upon the management of the bank; and Mr. Towers, perhaps more than Mr. Abbott, emphasized that nothing could relieve the management of that responsibility? They are responsible for what they do and they cannot escape that responsibility by saying that they took a particular action because that was what the government wanted. The only action the management of the bank can take is that which they themselves believe is the proper action for them to take on their own responsibility. Mr. Towers did point out, of course, as anyone must, that if the government of the day were sufficiently displeased with the bank or the management of the bank, they could put in motion steps which would bring about a change in the management. At some stage in that process, if the government were so determined as to make a real issue of it, a public issue presumably, the governor would have to resign.

I do not think it follows from that,—I am sure Mr. Towers did not mean it to follow from that,—that because the government can bring about the removal of the governor of the bank, therefore, the governor of the bank must do whatever the government wants him to do. Nor does it follow in fact that the government expresses views of a kind that would require action by the bank contrary to its own views of what should be the appropriate monetary policy at that time. Certainly parliament is supreme, and the government, having a majority in parliament, is in a position, if it thinks strongly enough about a matter, to bring about a change in the management of the bank. I feel that that is a very proper safeguard of the public interest. However, I think Mr. Abbott pointed out that there never had been any serious difference of

opinion between the government and the bank. This safeguard does not relieve the bank of its responsibility, and it does not alter the fact that normally I think you would expect the bank to take the initiative in matters which properly fall within its own sphere. The bank is not in the position of daily receiving instructions—or indeed receiving instructions at all—from the government in those matters which by statute are assigned to the responsibility of the management of the bank.

There are other matters where the bank acts purely as agent for the Minister of Finance, as fiscal agent, in the management of the public debt, and, under another statute, in the management of the exchange fund account. There, of course, the bank carries out whatever policy may be laid down from time to time by the Minister of Finance. There are still other matters in the general sphere of economic policy and exchange of information, where the bank and the Department of Finance are in close contact all the time, because they find it of mutual advantage. That is on a purely cooperative basis, not involving questions of the responsibility of management for the actual operations of the bank.

Mr. MACDONNELL (*Greenwood*): I do find something now, and perhaps there is a little light on the questions I am trying to have answered. I am reading now from page 872, volume 2, of the minutes of this committee for 1954. I am reading from my own evidence. I was raising the question as to what means there was of imposing a check on the amount of credit. I read this from my evidence:

... the other day when the Governor of the Bank was perhaps a little more communicative than he is today, he suggested that as means for checking that would be quite an important item, that is to offer his own resignation.

That is to say, if there were a difference of opinion. He threw that up and I told him that was not the kind of check I wanted. In other words, I think it is fair to say that at the time the governor did make it clear, when we were talking about this matter of curbing the amount of credit available, that if his view was not accepted, he had to fall in with the government view or resign. That was somewhat of a surprise to me and somewhat of a shock to me because I had hoped that in a very real sense the Bank of Canada had taken that important question out of the direct range of politics. Now, the governor has pointed out, Mr. Chairman, that naturally in the long run the government could have its way because in the long run the government could get rid of the governor of the bank. But Mr. Towers, if I understood him correctly, went much further than that, and certainly left in my mind the impression that if there were a difference of opinion he had no course except to give way. It is easier for me to believe, having regard to what we all know about Mr. Towers, that he was most influential and seldom or never did he have the situation where his view did not prevail. Nevertheless that question of right still remains and I would like to have a clearer statement from the governor as to just what he thinks the constitutional position is; that is to say, to put it bluntly, if there is a difference between the governor of the bank and the Minister of Finance, what happens? However highly we may regard those who are subject to the acid test of getting re-elected, it does have certain effects on their mentality; but they are definitely in a different position from a man like the governor of the bank who is there permanently and, almost like a senator, does not have to have regard to anyone else when he makes up his mind.

The CHAIRMAN: When you say "what happens", surely all Mr. Coyne can do is give his opinion as to what might happen? It never has happened.

By Mr. Macdonnell (Greenwood):

Q. I am asking about the legal position, the legal rights of the governor of the bank. Is he subject to be overruled by the Department of Finance? Surely that is a question which should be answered?—A. Could I refer, first of all, to the kind of context in which Mr. Towers' remarks were made? From my recollection of the report, the first time this question came up I think that it came up in this way: supposing the government wanted to spend a lot of money and for that purpose wanted to borrow a lot of money from the Bank of Canada and more or less demanded that the Bank of Canada should expand the money supply for that purpose, could the Bank of Canada refuse to do so? Mr. Towers did not stress the legal position at that time. He said that, of course, if the government were determined enough, if there were a serious difference of opinion, the government could get rid of the governor and of the directors, but I do not think he meant to imply that the only thing the governor of the bank himself could do in any other kind of situation was resign. Normally, the operations of the bank are carried on by the management of the bank without any such questions arising. The initiative normally comes from the bank itself; it has to, if it is to perform its duties.

If you still have reference to the particular type of situation I think Mr. Towers was talking about, namely, an attempt by the government to force the central bank to make a very large quantity of money available to the government, could the central bank resist that pressure from the government? If that is the question, it is a very unlikely occurrence, I must say. It never has happened. The government, of course, would need to have an act of parliament authorizing them to spend the money and they would need another act of parliament authorizing them to borrow the money. The only question remaining would be the source from which the money was to be borrowed. If the government said: "We demand that the Bank of Canada lend us this money", the first duty of the Bank of Canada would be to say "Why? What useful purpose is to be served by having your borrowing carried on in that particular manner?" It would not be because the government could not raise the money in some other manner—since the national government in fact can always borrow the money from other sources.

Q. Without your narrowing the problem by confining it merely to a case where the government wants to spend, is it not a much broader case where it is an expansion of credit and not just a question of the government wanting to spend?—A. Then it is a question of how the bank should conduct its operations in the field of money and credit, going right to the heart of monetary policy in those matters which are laid down by statute, as the responsibility of the management of the bank. Again it is very hypothetical: I really cannot conceive of a serious difference of opinion arising. I cannot conceive of it, and I hope I shall never have to conceive of such a situation, where the government comes to the bank and says: "We have been observing your operations and we think that you are all wrong, that you should pursue an entirely different course, and if you do not do so we intend to set certain steps in motion which will bring about your retirement". As I said earlier, if the government were determined that a different course should be followed, and were sufficiently convinced that it was necessary in the public interest, and defensible before public opinion, then a strong, determined government could have its way. However, the governor could not and would not react to this difference in view simply by saying: "Oh, very well, if that is what you want we will do it." I think there would be a long period of discussion before such a serious difference of opinion would arise, and still further discussion before it would come to a head.

Mr. CARRICK: On a point of order, I know this committee has very wide rules, but I am wondering whether Mr. Macdonnell is proceeding in the proper

way to put his question. You can see the embarrassment caused to Mr. Coyne. He is trying to ask Mr. Coyne, in essence, what he thinks about the statement made by Mr. Towers but he does not quote Mr. Towers' statement, but Mr. Macdonnell's interpretation of what Mr. Towers has said. I am wondering, if Mr. Macdonnell wants to know Mr. Coyne's views of Mr. Towers' statement, whether he should not quote what Mr. Towers said, or, if he wants to know Mr. Towers' views on the situation, whether he should not ask him his own views.

Mr. MACDONNELL (*Greenwood*): If I may comment on that, I think it is fair comment, and I regret not having Mr. Towers' words here. I have not been able to run them down. If this committee sits again I will come in with Mr. Towers' own words.

By Mr. Quelch:

Q. If legislation were passed authorizing the government to borrow from the Bank of Canada, I take it there would be no hesitation in the Bank of Canada advancing money to the government.—A. If it merely authorized the government to borrow from the Bank of Canada, that would leave it still open to the decision as to whether the authority should be used. Of course, if legislation were passed directing the Bank of Canada to lend money to the government, then the bank would have no option but to obey the act of parliament.

The CHAIRMAN: Mr. Carrick, I think you are right in what you said in regard to the other question asked and answered; and I hope in future Mr. Macdonnell will stick more closely to the actual statements.

Mr. MACDONNELL (*Greenwood*): I would like to qualify what I said. While I regret not having Mr. Towers' words, at any rate those were the words used at that time in that question by myself.

The CHAIRMAN: Have you finished your question?

By Mr. Macdonnell (Greenwood):

Q. No. I would like to go on and ask some questions about the reserves. My understanding is that, first of all, the statutory rate set up before the 1954 amendment was 5 per cent, but 10 per cent had come to be more or less the working rate. Am I correct?—A. Yes.

Q. Then the 5 per cent was changed to 8 per cent but by reason of the average which was applied the 8 per cent almost in effect became, if I understand it, easier than the 10. Is that correct?—A. eYs.

Q. Then, by discussions and arrangements last autumn, would it be correct to say that that 8 per cent has in a very real measure been raised to 15 per cent? Or will the governor explain exactly what validity there is in 15 per cent rate now, to what extent is it merely an arrangement, what the nature of the arrangement is, is it fixed or is it a rough understanding and what are the penalties, if any, for falling below that 15 per cent?—A. There is one important difference. The 8 per cent by statute refers to the cash reserves of the chartered banks, and "cash" is defined to be only Bank of Canada notes which the chartered banks have in their tills and the deposits of the chartered banks with the Bank of Canada.

Q. How did that differ from the previous arrangement?—A. The definition is the same as it was previously. The 8 per cent, as you pointed out, was different from the previous minimum legal requirement of 5 per cent each day; it was changed to a minimum legal requirement of 8 per cent on the average each month. In addition to cash which the banks have to hold in order to carry on business, whether there is any law on the subject or not, banks also have to hold some very liquid assets. They could hold nothing but cash but they find from experience that a certain amount of cash is enough, if, in

addition they have some very liquid assets which can be converted into cash at short notice, and they can earn an interest return on those liquid assets—which is certainly better from their point of view than holding money uninvested in the form of cash. Customs have varied from time to time and from country to country as to how much of these very liquid assets the banks hold. In the United Kingdom, as I pointed out, they have in practice held 30 per cent in a combined form of cash and liquid assets. In the United States, while there is no precise convention on the subject, the banking system almost invariably holds 15 per cent or better in the form of cash, money market loans and treasury bills.

Q. Is that a requirement or a practice?—A. It is not a requirement. I do not even know if it is a figure to which they consciously work but it turns out that way in the result. It has been higher than 15 per cent. Throughout last year I do not think it fell below 15 per cent. In Canada different banks have at times followed different practices. It has not been too much of a conscious objective but from time to time banks have been known to say that they like to hold 15 per cent, and from time to time they have in fact been holding 15 per cent, or a bit more sometimes, of their deposits in the form of cash, call loans and treasury bills. We found that last year, under the stress of a very rapid and continued increase in bank loans, the chartered banks let the ratio of their liquid assets to deposits drop off from month to month. This drop was the result of a rise in deposits and in later months was accentuated by some fall in the quantities of these liquid assets in the hands of the chartered banks. As I outlined in my remarks the other day, monetary policy was not having a direct impact on the whole field of credit in Canada, being insulated by the action of the banks in letting their liquid assets fall. I have no doubt they thought they were doing a perfectly proper thing. They may well have thought, when first they let the liquid assets fall, "We will get them back next month". They may not have felt that the increase in bank loans would continue in the way it did. I do not think anyone foresaw that. I did not and as far as I know the chartered banks did not. However, it went on and on and, as I say, it had the effect of hampering the usefulness of monetary policy. Without getting into the technical intricacies, that is why we proposed to the chartered banks last November that it would be helpful all round if they would adopt a liquid asset ratio of 15 per cent as a working policy.

Q. May I ask a question? You spoke about letting the liquid assets fall. Could you give a figure as to how low they dropped?—A. Yes. First of all, I would refer to my report. On page 10 of the report of the Bank of Canada for 1955 there is a chart showing the liquid asset ratio, which in the latter part of 1954 was over 14—it hit 15 per cent at one time—and then fell off in late 1954, recovering to 14 or so in early 1955, and then declining with increasing rapidity throughout 1955 to about 11 per cent in November.

Q. There is another question. That 11 per cent would be 1 per cent above the 10 which had been agreed on?—A. No. The old figure of 10 per cent was purely cash. At the time when they had 10 per cent cash they also had treasury bills and sometimes were at this figure of 15 per cent over-all for liquid assets.

Q. You say "sometimes"?—A. Yes.

Q. At their own option?—A. Yes. We felt it was desirable there should be a uniform practice in this regard and the banks, after talking the matter over very fully with us, agreed to that. That involved them in two things—first, raising their liquid asset provision from the level to which it had dropped in November to the level chosen as the standard for the future; and, secondly, agreeing to keep it from dropping below that standard after it had been achieved.

Q. Does that mean that that 15 per cent became a mandatory reserve? You say "agreeing".—A. No. It has been accepted by each bank with the other

banks and with the Bank of Canada as a working principle. If they wanted to say, "We desire not to observe that any longer," there is no legal power to compel them to do so.

Q. You use the words "legal power" advisedly, but nevertheless would it be true to say that you have got to a position where 15 per cent has become a very real figure and was regarded by you as such?—A. Yes.

Q. Would it be correct to say that, having regard to what has taken place, the Bank of Canada would consider itself quite entitled to take monetary steps, let us say, in respect of any bank which fell below the 15 per cent?—A. No, there is no threat or authority. There have been many such matters on which the chartered banks have adopted a standard practice from time to time—frequently in the last ten years—at the suggestion or as the result of discussion with the Bank of Canada.

Q. I would not use the word "threat": it is an ugly word—but I wonder in practice how near does it come to this, that that 15 per cent of assets is sterilized except in so far as the interest part of it goes I remember hearing once of a case in a French hospital where a man who was terribly injured was brought in and people asked if he could have a bed and the hospital authorities said, "No, there is a bed there but by law that bed has to be kept in reserve." He could not get into that bed. To what extent is this 15 per cent sterile?—A. That is a question of degree. I do not think it is sterilized at all. The working principle which has been agreed to is that the average for all the days of the month will come out at 15 per cent but on any day or series of days it could drop considerably below that.

Q. Yes, but in the event of any emergency arising during the month, your view is that that 15 per cent is there for use?—A. It is there for use, not just for emergencies but for ordinary ups and downs of the bank clearings throughout the month. There are occasions when there are fairly wide swings, one bank having cheques of another bank to present, and banks use their cash position and if necessary their day-to-day loan and treasury bill positions to meet these calls on them, and expecting that within a few days or probably within the month, they will get that money back again by a reverse swing in the clearing. However, if it is going to go on longer than that, it would be better for them to sell some other asset to replenish the liquid position. After all, they have to have a liquid asset position to carry on and it has to be restored. If the drain on a particular bank is to go on for a considerable period, it would be better advised to sell some government bonds which it holds, for example, or some other investments, and so restore the level of its treasury bills.

Q. However tactfully or politely the matter has been done, have you not in effect statutorily altered the legislation from 8 to 15?—A. No, sir. The legislation provided a minimum of 8 and also gave power to the Bank of Canada to raise that 8 per cent cash to 12 per cent by stages. That referred only to cash, primary reserves so to speak, of the chartered banks. That power has to be used I think, very sparingly indeed. Mr. Towers mentioned a case where there might be some sudden or very large inflow of funds from abroad that would suddenly have the effect of giving the banks a lot of cash which it would be desired to sterilize, if you like, by raising their cash reserve requirements. There might be some sudden inflationary development where very sharp action by the central bank would be desired—very striking and public action. I do not think that raising the cash requirement will be done very often, nor do I think that under ordinary circumstances the other requirement would be raised. The purpose of the latter requirement was to get a standard practice adopted, not one which would be varied from time to time.

Q. As the matter stands now, does it mean that you still have what you say, so to speak, that spread from 8 to 12?—A. It has not been used. That power exists.

Q. What has taken place has taken place quite apart from that requirement?—A. Yes.

Q. You have not availed yourself of that?—A. No.

By Mr. Cameron (Nanaimo):

Q. Following somewhat on the same lines as Mr. Macdonnell, I think I am correct in my memory of what you told us the other day, when the question was being discussed of the relationship between the Bank of Canada and the chartered banks. As I recall it, at that time you pointed out that you had no legal powers—as you have done again this morning—and I believe you went further than that and suggested there had been no request on the part of the Bank of Canada to the chartered banks to curtail credit, or something of that sort, I believe?—A. Yes.

Q. What I had in mind was this—I have had reports about this. It may be that the local bank managers have been mistaken, but I have had reports of applicants for loans from chartered banks having the applications rejected on the grounds that it was not possible for the bank to accord the loans because of a directive from the Bank of Canada. Would that be a case where they misunderstood?—A. Well, of course, while we did not ask them to restrict credit, we did ask them to refrain from making one particular kind of loan, a “term” loan as I described it the other day, but that has nothing to do with what the customer wants the money for; it is only a particular method of making loans. So far as credit in general is concerned our main endeavour was to point out to the chartered banks and talk over with them the fact that there had been a very large increase in bank credit already, and that one could not expect it to go on increasing at that rate for very much longer. Moreover it was becoming apparent to the chartered banks at that time, if it had not been so before, that it was becoming more expensive for them to increase their loans because they had to sell government bonds, usually at a loss, in order to get funds to extend their bank loans. We said in effect that the central bank was not going to shovel out new money in large quantities under those circumstances. As time went on, the banks came to realize that there was quite a difference in the situation from that of a while earlier. Under conditions of easy money any bank manager or loan supervisor will make a loan to any one who comes along and seems a worthwhile risk. Under other circumstances there are too many worthwhile risks appearing and the total demand for money seems to be too great and the bank has to ration, if you like, its loans; or at any rate it has to alter its standards—perhaps raising the standard of creditworthiness it has in mind, to distinguish between cases where it will make a loan and cases where it will turn it down. Bank managers, being human like all of us, sometimes find it convenient, in their discussions with customers, to suggest that some mysterious body at Ottawa is responsible for all this.

Q. That is what I was wondering, that that might be the case.—A. It might be the case more literally if the central bank were actually reducing the volume of money, but we were not and we have not. There may have been temporary ups and downs, but by and large the volume of money has recently been expanding a bit. I do not think it is correct to say that we have curtailed credit: it is just that continuing the increase in credit becomes more difficult as time goes on.

Q. Would you not agree that your agreement with the chartered banks with regard to the ratio of liquid assets was in effect a method of controlling the basis for bank loans?—A. You mean, at the time? It was not intended that way. It was intended that banks should restore their liquid assets by reducing their longer term assets, their government bonds, and in so doing put themselves into a position which might have obtained all the time, if they had been selling their government bonds earlier. It is of course open to a

bank to improve its liquid asset position by reducing some other assets than government bonds, even by reducing its loans. In practice, no bank has reduced its loans below the level of last November, and the total of bank loans has increased month after month.

Q. Has it not had the effect, if they abide by this convention, of actually shrinking the base on which a lot of the loans can be made?—A. No, it provides a base, or makes the base more effective. If there comes a time when an increased volume of loans, even bigger than they are now getting, would be desirable, then it would be the duty of the central bank to see there was an addition to the base such that this could be achieved while the banks continued to observe an 8 per cent cash ratio and a 15 per cent liquid asset ratio. That is where the job of the central bank comes in.

Q. How important do you consider open market operations as the weapon for controlling the issuance of credit? Would you say that is your most important method? If, in the opinion of the bank, it was necessary to cause a contraction of the base, would you consider that was your most important means?—A. Yes.

Q. I was interested in that, as it seems to me there is a possibility—in fact, I would suggest it—that in the period about 1950-51 the case actually was in existence where there was a conflict between, shall we say, the two functions of the central bank—that of controlling the money supply and that of acting as the government's agent, shall we say, in the handling of government bonds. Would you agree that that was the case?—A. Not quite on those terms. It was not a conflict between the central bank on the one hand and the government on the other hand.

Q. No, a conflict between two functions?—A. According to our way of looking at things, in this country, the central bank must take into consideration the condition of the government bond market—not in the interest of the government but in the interest of the central bank and of the general public. We wish to see a good market and a large volume of transactions, where people who want to buy or sell government bonds any day of the week can do so and not just find a void or a drastic movement of price in any one day. That was an important consideration in the post-war period. There were great fears expressed in some quarters as to what would happen to the government bond market after the war. References were made to what had happened after the first world war and so on. In point of fact, the policy, whether you regard it as desirable or not, was successful in that respect during the first five years after the war. The government bond market functioned satisfactorily and in fact the prices of victory bonds from the autumn of 1945 to early 1951 were never below par. They could be sold above par. The question of seeing the government bonds go below par—this is ancient history—was a difficult one, particularly so long as in the United States they had an avowed policy of not letting their bonds going below par. We never had a specific pegging policy here and we tried to keep our policy flexible but in our own minds we had a bias against seeing government bonds go below par unless and until the selling pressure became very heavy. However, things came to a head in March of 1951—the selling pressure did become very heavy, and American policy was changed and they fell below par—and at that point we went below par also.

Q. Would you not agree that the price of that policy—I am not saying it was right or that it was not inevitable—was the inflationary spiral of that time?—A. No, I do not think so. I leave the immediate post-war inflation aside—let us not argue about that. The significant new development was the outbreak of the war in Korea in June of 1950 and the great world-wide scramble for commodities in consequence of that war, which sent commodity prices sky-high for a time. In Canada, we had a further problem, a quite unexpected one. After the outbreak of war in Korea, foreign money, to a

large extent American, started to pour into Canada in huge quantities, such as to make any open market policy difficult to carry out. It also made the maintenance of a fixed exchange rate practically impossible, and a fixed exchange rate was therefore abandoned. It took time to make those adjustments. Finally, in the face of this almost involuntary rise in prices as far as Canada was concerned, we, together with the banks, came to the conclusion that special controls on credit were necessary. The government brought in legislation in the autumn of 1950, and amended it in the spring of 1951, imposing restrictions on consumer credit. There were a great many factors operating.

Q. I believe two-thirds of the post-war expansion in total money supply took place in 1950-51?—A. Taking as a crude definition of the money supply the holdings of currency and bank deposits by the general public, which excludes bank deposits held by the Government of Canada, the total held at the end of the year 1945 was \$5,905 million. The annual increases in millions of dollars in the years 1946 to 1955, respectively, were as follows: 947, 235, 656, 430, 539 in 1950, then 25, 565, 43, 823 and 745.

Q. Was it not possible for the Bank of Canada in 1950-51 to use what you have told us was the most effective weapon?—A. We did use it on a large scale, but notwithstanding that this development took place. It was a most important one, where a large amount of money was needed by the government to pay for the foreign exchange being accumulated by the government in the exchange fund at that time. The government used up its deposits in the banks paying for exchange the Bank of Canada took on paying for additional foreign exchange and tried to offset the effect on the money supply, by selling its holdings of government securities in the open market.

Q. We were riding quite a lot of different horses?—A. We had to ride them, and we had no choice but to try to achieve, as good a result as possible for the team as a whole rather than let one horse run away ahead of the others.

Q. I come back again to the point that in an inflationary situation, in actual fact your most powerful weapon is one which you have to use with a great deal of discretion. In fact, it may largely become ineffective—in fact, it was ineffective in 1950-51.—A. That is a question of opinion. It was used on a substantial scale and was effective in so far as it was used. However, things have changed. We have a much better open market, for one thing. We have got over the last evidence of the post-war inflation, I trust. There has not been in fact any increase in prices, any large or substantial increase in prices, since 1951. The whole monetary mechanism is working more smoothly now. It is not something that one uses only when serious trouble has developed, it is something which is used from day to day and we try to keep it moving, at any given time, in the right direction. The most important thing about open market operations is that they take place on practically every business day of the year.

Mr. CAMERON (*Nanaimo*): Thank you.

By Mr. Blackmore:

Q. I was interested in the question which Mr. Macdonnell asked Mr. Coyne the other day, in reference to the Finance Act of 1914, and the answer which Mr. Coyne gave. I wonder if it would not be well to probe into that matter further?—A. I should remind you that I am not an expert on the Finance Act of 1914. I think I gave a rather sketchy answer to Mr. Macdonnell's question.

Q. Yes, I took it that you thought you had reasons.—A. Reasons of ignorance, probably the most compelling reasons there are.

Q. You have not indicated much ignorance since you came before this committee. I would like to have you define a little more specifically just what you mean by the expression "need for more money." I think you used that expression once or twice; I think it comes up once or twice. What is meant by the phrase "need for more money"? To help you extricate yourself in answering that question, may I read to the committee a communication which I have received from my constituency which you will readily recognize. It is dated the 15th of May, 1956, and is a telegram to the Governor of the Bank of Canada, which reads as follows:

Recent increase in Bank of Canada rediscount rates have resulted in increased rates to all borrowers and restricted credit. Lethbridge Chamber of Commerce represents community of small businesses based on predominantly agricultural economy which shows no indication of inflation but rather is in depressed condition due to inability to market agricultural products. Increased interest rates and restrictions in credit are worsening already bad condition. We protest increased interest rates and general policy of credit restriction and request reconsideration in light of adverse effect of these regulations on large segment of Canadian economy.

G. Lomas, President,
Lethbridge Chamber of Commerce.

Evidently in that area there is a need for more money.—A. There is demand for it, apparently.

Q. Apparently the method which you have been adopting, in your wisdom, for rendering the money supply not too much over-all, has not obtained your objective at all in this area. Now, in the light of that situation, what elaboration could you give upon the meaning of "need for more money" in a community?—A. The major point is that our activities must be directed with a view to the national situation as a whole. I do not think it would be possible, and I certainly do not think it would be desirable, for a central bank to try to influence the credit situation in some particular region.

Q. But still, that leaves the definition of the expression "need for more money" in the air. As far as I can see, there is no way of getting at it.—A. If we are through with Lethbridge—it is a special situation—

Q. I used it as an illustration there.—A. Yes, but it can hardly be an illustration of the overall position in Canada today because as we know credit is expanding in the total national economy, and not contracting.

Q. The important question is: is credit expanding as rapidly as the industrial development of the nation would justify it, and if so, how can we prove it, and if not, how can we discover the deficiency?—A. Quite so. I do not think there is any mechanical or mathematical way of resolving that question. In so far as it is the job of the central bank to influence the total supply of money and credit I should perhaps first emphasize that the central bank can only influence, not determine, the total supply. People can grant credit to each other without asking for the say-so of the central bank, and within considerable limits the commercial banks can increase or decrease the amount of credit they are extending. Even with no change in the cash reserve base they can substitute one form of credit for another. For example, they can find one customer to buy a government bond and extend a loan to another customer. So there can be a very considerable change in the volume and kind of credit, arising from many causes other than central bank action.

So far as the central bank is concerned, it can influence the situation. It can add to the basic money supply, to the cash in commercial banks, and it can take action to reduce the cash reserves of the commercial banks. But to decide how to do that, and how far to go, is something which is

occupying our attention every day, and there is no formula or rule we can take off the shelf and say: this is how we measure it, and this is what we are going to do today.

We have to take into account all the evidence that we can find as to the state of the economy, we have to consider the demand for and the supply of credit, and the changes that are taking place in the use made of the existing money supply. People who had money lying idle for years may suddenly decide to spend it or lend it to somebody else. Then there is the state of unemployment; if it is not purely seasonal, it obviously is something which we must take into consideration. There is also the state of foreign trade, and the state of capital movements into and out of the country.

I cannot be more precise than to say that under normal circumstances when we feel through the market that the total demand for credit is rising or falling, we yield somewhat to that demand. If the total demand for credit is rising, we provide for some of that demand by buying government bonds. Under those circumstances people are trying to sell government bonds but we do not necessarily stand there and buy them at a fixed price. If people continue to sell government bonds, we normally back away and buy tomorrow at a lower price than we did today. But we do, to some extent, meet the demand for more credit.

As changes take place in the price level of the merchandise in which we deal, government bonds, there are corresponding changes in the rate of interest which cause changes to take place in both the supply and the demand for credit. Thus the situation changes from day to day, and the change can be clearly observed over a period of time.

Generally speaking, then, when the demand for credit is growing, it is the job of the central bank, as I see it, to meet that demand to some extent against the check of rising interest rates. But if it seems to be growing very fast, and if there are other indications that the whole economy is trying to do too much and if it looks as if the situation is going to be overly tight for the next several months, we try—and it is the policy and I think the obligation of the central bank—to reduce the scale on which we are supplying additional money or credit to the economy.

Q. I appreciate that answer. It is very good. It constitutes in my mind an admission of the inadequacy of the instruments which are at your disposal in your efforts to achieve the whole overall objective, in that you have only open market operations on which to rely. That is what your answer stresses.—A. They have a very persuasive effect.

Q. That is true; but inevitably there are instances in which they do not achieve that result. But how can you judge when there is not plenty of money, and when there is plenty of money, regardless of your policy under the limitations which surround you, to cope with the situation? What ultimate criterion do you use to determine whether there is more money than there should be, or less?—A. The ultimate criterion only becomes known after the damage is done. The ultimate criterion of too much money is inflation and of too little money, depression. So far as we are concerned in Canada there is the important qualification that either inflation or depression may hit us from abroad rather than through anything we have done.

Q. Just as it did in the last great depression —A. Yes, from the world at large, yes.

Q. Maybe I could take your criterion and go on to what is the ultimate sign?—A. I would have to give the same answer, that the ultimate sign or indication that the monetary policy has been successful is the result, and I do not believe that the result can be absolute. I do not think you could expect monetary policy by itself to bring about a condition of permanent and full employment without any change whatsoever up or down, or of permanent

stability of prices without any change whatever up or down. Somebody, in some other sphere of action, might be able to do that, but we in the central bank could not do it alone.

Q. Evidently, the meaning of the expression "need for money" is very very vague and indeterminate. In Lethbridge, we have one of the finest constituencies in Canada and it is one of the wealthiest.

The CHAIRMAN: No bragging, please!

By Mr. Blackmore:

Q. With due allowance, may I put it that way? But the thing I want to emphasize in this connection is that we have a variety of resources; we have three sugar factories, for example, and a number of other things which help to balance out our economy.

The CHAIRMAN: You mean to sweeten it a little bit!

By Mr. Blackmore:

Q. The question simply arises: why should this one area, constituting practically the whole vicinity of Lethbridge, which, from the standpoint of Canada, is small, but from the standpoint of other areas is pretty large—why should it be in a state of depression with no chance of giving it the money it needs. Evidently it is not having its "need for money" met.—A. I could not accept that statement. I dare say, there are some people who are not getting all the money they want to borrow. There are bound to be cases of that sort all across the country. But I would doubt very much if the Lethbridge area as a whole was suffering from a shortage of credit. If it is it must be because for some reason they need more money relatively than the rest of the country. They need to go into debt more than other people, and they cannot find people to lend money to them; not just the banks, but people of any kind, because there are all sorts of people whose activities overlap with those of the chartered banks, such as insurance companies, all sorts of investment companies, and anybody who has got savings in the Lethbridge area. I imagine that there are many who have substantial savings in the banks in that area.

Q. They are keeping them there.—A. They may be keeping them there, or they may be lending them to their fellow citizens in Lethbridge or elsewhere.

Q. The important consideration is that this letter is coming from the Lethbridge Chamber of Commerce which is a body of about 600 solid citizens whose contacts will reach into every industry in the whole country.—A. It is also an agricultural area.

Q. Yes, it is.—A. And there may be people in that area who have less income this year than in others. I do not know, but I doubt if it is a shortage of credit which is causing that situation.

Q. They mention that, and they say that credit is being restricted, and that interest rates are being increased.—A. Interest rates have increased over the past year, yes. But as I have said, our problem cannot be approached from a local standpoint, because there are many people in Canada, and the country as a whole seems to have plenty of credit.

Q. Probably I would be justified in saying that we are not meeting their need of money at the present time.—A. I would have to beg off from that argument on the ground that my job has to do with the national credit situation as a whole.

Q. I do not want to monopolize all the time, and if someone else would like to take over, I should be glad to yield.

The CHAIRMAN: Perhaps we may come back to you later, Mr. Blackmore. Now, Mr. Richardson.

By Mr. Richardson:

Q. Arising out of some of the questions put by Mr. Blackmore, might I ask Mr. Coyne if, in making his precise estimates having to do with the general situation and information, what percentage of his estimates are based upon precise areas of information, and what remain in the free field or area of experience?

The CHAIRMAN: That sounds like a \$64 question.

The WITNESS: That question, by its nature, is not capable of a precise answer, but I think it is correct to say that in many businesses the people concerned have certain processes going on in their minds, although they may really be unconscious of them, and I dare say that at times their decisions are based upon all sort of experiences which they have had. It is very difficult to set it up on the basis of a mathematical formula. It just cannot be done, I think.

By Mr. Richardson:

Q. On balance then, would the precise factors be on the plus side and the unknown factors of experience be relatively minor?—A. Yes, in a way, because all decisions must be based upon the information at your disposal. It is a question of what weight you give to it, and how it contributes to the total impression that you get.

The CHAIRMAN: Now, Mr. MacEachen.

By Mr. MacEachen:

Q. May I turn for a moment to the capital account of the balance of payments? I wonder if you can tell us what effect capital inflows have on the expansion of credit in Canada, and on the relative interest rates in Canada and the United States?—A. The two things interact. If interest rates were rising here faster than in the United States, at some point there would be a counteracting tendency arising from the inflow of capital from the United States. You may also have capital coming in which is not interested in interest, but which has other plans, such as the development of resources and things of that sort. But many capital movements are affected by interest rate differentials, an obvious example being that if a large Canadian borrower such as a province, a corporation, or a municipality, should find that it could borrow sufficiently cheaper in the United States than in Canada to affect the exchange rate risk, it may borrow in the United States and bring money into Canada. Actually, with the large program of expansion in this country which has been evident for several years we have received a substantial net inflow of actual goods otherwise we could not have had expansion at the same rate that we have had it and that physical inflow has been pretty well matched by the net financial or capital inflow. The difference, if any, would show up in the reserves of the exchange fund, but they have not been in fact altered very much over the last five or six years.

Q. How does that financial inflow make itself felt through the banking system? What is the process?—A. Let us suppose that a Canadian borrower goes to New York and borrows United States funds. He wants to bring that money back to Canada where he can spend it, but he has to sell the United States funds to somebody who has Canadian dollars and who wants to buy United States funds. That transaction would be carried out in the exchange market. The other party who has given up Canadian funds for United States funds may want them to pay for goods brought into Canada.

Q. Well, once those funds are brought into Canada, the Canadian presumably deposits his funds in some bank in Canada?—A. Somebody else, the buyer of the United States funds, had to give up bank deposits in Canada.

If it is all done by the general public without the central bank or exchange fund account having to do with it, it all balances off. For every person who increases his bank deposit in Canada there will be somebody else who decreases his bank deposit in Canada, by having to pay for those funds.

Q. Therefore there is no net effect?—A. No, not in the case mentioned. But if there was a tendency for more United States funds to be offered for sale for Canadian funds than there was demand for United States funds the exchange rate would move in favour of the Canadian dollar. This would tend to discourage those who were bringing United States funds into Canada and would encourage others to find a use for United States funds, and a new balance would be achieved but at a different exchange rate. There are minor fluctuations in the exchange rate every day, but in these circumstances there might over a period of days be a substantial movement of the exchange rate.

Q. There is one other feature of our economic relations I would like to ask about and that is the cost of capital in Canada and in the United States. At the present time Canada has not a sufficiently great volume of domestic savings to finance her development, and we are a debtor in that respect.—A. Yes.

Q. And the United States is the creditor.—A. Yes.

Q. The savings in capital are more plentiful in the United States, and they are less plentiful in Canada; there is a difference, and this difference in the supply of savings and capital—is it reflected in real differences in the cost of capital for development in each country?—A. Yes. It is not so much that there is a difference in the rate of the savings. I have not got the exact figure in mind but we can assume that the rate of saving is not greatly different in the two countries. It is the demand for those savings to finance expansion projects which is proportionately greater in Canada than in the United States.

The United States provides capital for many countries in the world, partly because of the voluntary decisions of various investors and savers in the United States, partly because their government syphons off some of the savings of the American people to use for foreign programs. But this latter does not affect us in Canada. In Canada we have a much larger proportionate need for money for physical expansion than they have in the United States or in much of the rest of the world, and it is only as long as we can take advantage of the savings of other people that we can continue at that level. There may be an argument whether you want to do it in this way, but in overall terms I think that is the situation.

Q. You said, when I asked you the first part of my question, whatever the way that you described it, that the demand or supply of savings is reflected in the cost of money.—A. Yes. In a country where the demand tends to exceed the supply of savings, you have a higher interest rate than in a country where the reverse situation exists. You have to have some differential to encourage the international movement of capital.

Q. Suppose you take one of the countries of the world where capital is hard to secure, and where it is very expensive in relation to some of the other factors of production. Could you indicate in general terms what the effect would be if the capacity of Canada to import capital was affected adversely by the price of capital or the interest rates?—A. Many things could be affected. For example, some projects might not be proceeded with this year, and they might have to wait till next year or perhaps for several years. There are many other factors which influence international capital movements, for example, whether or not savings are available in foreign countries regardless of the rate of interest, whether the owners will invest their money in Canada even if there seems to be a monetary incentive for them to do so. Moreover, a lot of the projects which are going ahead in Canada and which need capital are themselves started by non-residents, because they want to get raw materials from Canada. Therefore they themselves provide the capital necessary for those

particular developments, and the capital goods which are necessary for those developments will, to a degree, have to come from the different countries too.

Q. Would you agree with me that the availability of this inflow—that the state of the inflow of capital in Canada would for that reason make the cost of capital less expensive than it otherwise would be, and that it would at the same time increase the proportionate share of the wage income than it would otherwise?—A. It is very hard to say. Theoretically we should be able to maintain full employment in this country with a balanced current account, without this large import surplus. I think it depends a good deal on the kind and quantity of development you want, whether you would regard the importation of capital as a desirable thing or not. I do not want to get into any arguments on matters which are likely to be the subject of public debate in this connection, because it is not exactly my own field.

Q. I think I have kept the matter away from that. I believe that in Canada we have a very plentiful supply of capital available to us. In Canada capital is inexpensive and labour is relatively expensive, which is the best of all possible worlds, as compared with another country, such as India or Pakistan, where capital is extremely expensive and labour relatively cheap.—A. It really comes down to the standard of living. If you have more capital per person employed, you probably have a higher standard of living. That still leaves open the question how rapidly you want your standard of living to advance, and how much you are prepared to pay for it.

By Mr. Quelch:

Q. Are we not actually meeting a deficit on the current account by capital? —A. Yes, by importing capital.

By Mr. Carrick:

Q. Would you say it is a good or a bad thing for Canada to have these large imports of capital which we have had in these last years from the United States?—A. That is a very broad question and I should like to keep off it. There are so many non-economic and so many non-monetary judgments which have to be made in answering that question.

Q. I do not think you have to worry about that, as all politicians have agreed it is good for Canada.—A. I shall limit myself to my earlier statement, that it is a question of how fast a rate of growth you want in your physical capital assets. If you think it desirable to have as large an expansion as we have had, then it was necessary to have the imported capital, because quite obviously the Canadian people could not or would not save on such an extraordinary scale. On the other hand, if you approach it from the other aspect you might find some people who would say: "I would have been happy to see only half that amount of expansion in the last ten years". I do not want to get into that argument.

Mr. CARRICK: I think this is a good time to leave Mr. Coyne out of these political discussions, as they might be pursued further.

Mr. MACDONNELL (*Greenwood*): I was interested in the question from a purely technical point of view. I quite agree Mr. Coyne should not be asked to deal with it from any other point of view. However, from the purely technical aspect, I should like to hear more about it.

Mr. BLACKMORE: Before one could answer such questions satisfactorily, one should single out an industry. One could take the oil industry or the gas industry. One could discuss that. One could discuss the development of industry in other parts of the country. What might be in excess in the case of one might be inadequate in the case of another.

The CHAIRMAN: It always will be a question of opinion as to how rapidly industry should develop.

By Mr. Philpott:

Q. I want to ask Mr. Coyne a few questions along another line. Am I right in saying that the very great development of installment buying in North America in the past generation or so has presented people in your profession,—that is, central banking,—with an entirely new problem in history, namely, inflation? I do not refer to inflation of the runaway type which occurred in Germany and Russia right after the first world war and which was almost entirely due to government policy, through the government debasing the currency and so on. Is it true now that in North America there is danger of inflation or of too rapid expansion of installment buying? In other words, does any possible rapid inflation arise from the people themselves wanting to buy on credit or does it arise from ordinary channels of business people making commercial loans?—A. There has been a great development in the field of consumer credit, including installment finance, charge accounts, and other methods of consumer credit. There can be considerable fluctuations in consumer credit, which means that it can be an element in a change in the over-all monetary situation. The most important factor in installment finance has been automobile financing. It is almost as if installment finance has been tailored to the automobile industry, and the automobile buying habits of the American people. Consumer credit in the field of automobile sales and in other sales fields can now be used as a selling technique. There are even people who have money in the bank who will sometimes buy a consumer product on the installment system. I do not want to make any general statement adverse to consumer credit. I think it is a desirable feature in a modern financial system but, like anything else, it can go to extremes.

By Mr. Quelch:

Q. What would be the danger point?—A. When it accompanies a very aggressive selling campaign in some particular field, it might go to extremes and it might induce too large a production of those goods in one year, with a consequent falling off in production in another year.

By Mr. Phillpott:

Q. When you put in special measures at the time the Korean war had closed in credit and you cut down on mortgage loans and so on, did you put in anything against installment purchasing?—A. Yes. The government introduced legislation in the autumn of 1950. Both the government by that action and ourselves in our field were trying to deal with various symptoms of the inflationary situation which might get worse. The basic rise in world commodity prices and the positive scramble for commodities was, as I have said before, completely outside the control of Canada. But our own domestic situation would have been worse if measures had not been taken to limit the expansion of credit.

Q. As I recall it, they raised the down payment on all these things to one third down?—A. Yes. I forget the exact regulations.

Q. In the recent raise of the bank rate, which was, as you point out, to check inflationary pressures, there has been no consideration given to raising the down payment on installment purchases?—A. For one thing, there is no legislative authority now in existence. That act passed out of existence.

Q. In other words, the country applied it at that time by reason of the fact that there was a war on and it was a war measure?—A. My history is not good enough. I am not sure if the first regulations were made under the Emergency Powers Act. I think that there was special legislation. At any rate, the power no longer exists.

Q. As the law stands now, your bank has no constitutional power to alter the level of consumer credit?—A. That is right. The chartered banks lend

money to the installment finance companies and they sometimes change their ideas as to how much money they will lend to them. That means that the installment finance companies have to go into the market to sell their short term notes or their bonds or to sell capital stock. I am not sure that there is anything specific there which causes any restraint on the amount of consumer credit being made available—I rather doubt it—but the general atmosphere might have some effect on the minds of the installment finance companies. If they saw general monetary action being taken or interest rates rising over a considerable period, they might well decide they were going to be a little more conservative in their attitude to the loans they were making in case there should be a reaction and some of the loans should turn out to be bad.

By Mr. Follwell:

Q. I think the chartered banks would decide on how much money they would lend to finance companies, but would they make that decision based on a directive of the central bank?—A. No. We have not made any directive. I do not like the word "directive", anyhow.

Q. Would they make any decision in curtailing credit to the finance companies after a conference with the central bank?—A. That might be the case or it might be done without any such discussion.

By Mr. Quelch:

Q. On page 11 of your report, you refer to

A substantial growth in consumer credit...This growth was reflected in a 64 per cent increase in bank loans.....

Apparently the banks take quite a lot of responsibility as regards consumer credit today. I understand the consumer credit is around \$2,212,000,000—I understand those were the last figures. How high would that have to go before you consider it would be dangerous?—A. I cannot answer that question.

Q. What do you consider a dangerous point?—A. I would be more interested in the rate of advance at any given moment or the rate of increase over the last 6 or 12 months—rather than the absolute level, because I do not know what the absolute level should be.

Q. Actually, these loans have a slight inflationary character at the present time and when they are repaid the opposite will occur and it will be deflationary; so it will depend on policy in the future. If we continue to expand consumer credit at a similar rate, there will be inflation; on the other hand, if a decision is reached to curtail these consumer loans, it might be quite deflationary?—A. That is one factor, but the man who has savings deposits is another factor. He may be saving one year and spending everything the next year. There are many other channels by which spending rises or falls, each of which theoretically has that same kind of influence which you mentioned.

Q. The chartered banks could in part control it by curtailing these loans to these installment finance companies?—A. I am not sure that it would curtail consumer credit as such. It might make it more expensive. The fact of doing that at a time when other things are happening might bear on the general psychological atmosphere and lead to more conservative lending practices.

By Mr. Follwell:

Q. I should like to ask Mr. Coyne if the central bank is responsible for putting into the flow of currency any currency such as notes and coins?—A. The notes are our own responsibility. In the case of coins, we merely act as a channel between the banks and the mint. We get the coins from the mint and distribute them to our agencies and so they are distributed to the banks.

Q. How do you know how many coins to put in?—A. It is quite a problem. We have to try to assess what the public wants and we receive evidence in the form of calls from the banks that their customers need more coins. We try to foresee it throughout the country, but we are not always too successful. We pass that information on to the mint and they adjust production accordingly.

Q. There must have been over the years an increase in the number of coins and notes in circulation?—A. Yes.

Q. How do you figure out the percentage by which to increase the number of coins going into the currency stream?—A. We do not exercise any influence on that one way or another. Either in the case of coins or notes, we simply put into circulation as much as the people want, because the people could only get notes or coins by giving up another form of currency in exchange, namely a bank deposit. If someone decides that instead of keeping \$300 in the bank and \$100 in his pocket, he will keep \$200 in the bank and \$200 in his pocket, we do not try to influence that decision in any way.

Q. There is no limit to the amount of currency, coins or notes, going into the currency stream?—A. Not in so far as we are concerned, and I do not see how we could limit it.

Q. What total could you put in?—A. We could not double the note issue overnight, because we would not have notes in existence. We would have to go to the printers and get them to increase the production schedule. It is going up every year, of course. The fact that each year the general public need more currency for carrying on business is, we take it, a completely objective and unbiased indication of the rising level of economic activity. Again, there could be non-economic factors entering into that. People might get scared by the threat of war or might decide that it was silly to carry so much cash in their pockets or tills instead of investing it at some rate of interest.

By Mr. Cameron (Nanaimo):

Q. Do these changes bear a constant ratio to the total money supply?—A. No.

Q. It goes up and down?—A. Yes. In recent years the rate of note issue has shown a steady increase.

Q. In ratio?—A. No, in itself. It has been more steady than the total money supply.

By Mr. Quelch:

Q. It is not seasonal?—A. Yes, it goes down sharply in January, it goes up for most of the year, with a hump at Easter and Thanksgiving and a peak at Christmas.

By Mr. Follwell:

Q. Are there more coins or notes at any time of the year?—A. They come into us particularly in January. More notes come back to us then than we are asked to send out. This is quite apart from the destruction of old notes—as the banks find notes in their possession which are disreputable in appearance and they do not want to send them back into circulation, they send them to us and we pay in whatever way they wish, either by issuing new notes to them or by crediting their accounts.

Q. Do I understand there is absolutely no limit on the number of coins or notes you can put into circulation? At this present minute, if you had the physical plant and equipment, you could immediately start processing and putting them out?—A. We could not take the initiative. We could not put them into circulation. All we could do would be to respond to the demand. There is no way in which we could put them into circulation—nor could the

government do so. I suppose the government could pay its bills in notes, but people who got them would promptly turn them in to the banks to the extent that they were surplus to their holding of money in that form.

Q. Others might understand this, but I do not. On page 6 of your report you have a reference to deposits "less float". What does that term "float" mean. I asked someone but he did not know.—A. I am probably not the best person to answer that, but I can give a general answer. Float consists mainly of cheques in the possession of one bank and drawn on another bank, which the first bank has received and has not had time to clear to the second bank. These cheques are payments from a customer of one bank to a customer of another bank. The receiving customer who deposited the cheque has already received credit, but the bank that accepted it has not had time yet to claim the corresponding amount of money from the bank on which the cheque was drawn, and the deposit account of the customer who drew the cheque in the first place has not therefore yet been debited.

Q. In that case, you have to subtract the particular amount?—A. That amount could fluctuate quite rapidly. You might find a holiday coming towards the end of the month giving rise to a considerable increase in the volume of payments by cheque and therefore in float. The amount of the float may be \$200,000,000 greater in one month than in another month; in consequence the deposits will be \$200 million greater because they have not yet had debit entries made against them. If you want a more accurate view of the volume of bank deposits, you subtract the float to get a more comparable figure. It is a refinement in the statistics.

Q. It is a cancelling item?—A. Yes.

By the Chairman:

Q. Are gold coins forbidden by law today or what is the situation in regard to gold coins?—A. Gold coins are not legal tender in Canada, under the Currency, Mint and Exchange Fund Act. No new ones have been minted for many years and those that were minted earlier do not circulate since the rate for gold at the time of minting was \$20.67 an ounce and the current market price of gold is \$35 U.S. an ounce. Naturally those coins do not show up, because the people who have got them would keep them or would have them melted down and sold. Therefore, there is not much reason to expect circulation of existing gold coins in Canada.

Q. Is it considered that the notes are a more convenient form, or has anyone ever raised the question?—A. I do not think there is any evidence of a demand for gold coins, any more than a demand for silver dollars. Silver dollars are minted and if people tried to pay bills with them they would probably find it somewhat inconvenient, and the silver dollars would be shipped back to Ottawa for redemption in some other form.

Q. You say that the Canadian public has become used to notes, instead of gold coins?—A. There may be some people interested in gold coins. If so, they can make arrangements to buy gold coins from some other part of the world or have a search made for Canadian coins. The supply is small and they are collector's items.

By Mr. Bell:

Q. You spoke earlier as if you might have some knowledge of special sections of Canada. I think you said that in southern Alberta they are a saving people. We all know we are having trouble with the economy of the maritime provinces and I wonder if you have any general information about the people there—are they a saving people and to what extent are the bank clearance figures increasing? To what extent are their general monetary problems out of line with the rest of the country? Do you have any thoughts

about education in this respect or what could be done, without getting into the general economic picture? I wonder if you would have any knowledge which would help us there, applied to the habits of the people themselves.—A. I had no exact knowledge—, I took it to be a fairly general condition. I understand that the area we were discussing is pretty prosperous, but I should not like to make positive assertions that there is a high level of savings there.

By Mr. Blackmore:

Q. Some of the income tax inspectors may know?—A. Income tax might give some indication.

By Mr. Bell:

Q. Have you any figures which would give that information?—A. There is very inadequate and scrappy information on the geographical distribution of money or savings. There are regional statistics on the level of activity, on employment, production and retail sales, and so on. You could get a fair impression from those figures.

Q. How about bank clearances, say in regard to St. John? Has the increase in their figures in recent years been comparable with other major clearing houses?—A. I am sorry, I do not know.

By Mr. Quelch:

Q. I noticed a statement by, I think, the Royal Bank, that the policy in future might be one under which people might be required to make their savings deposits actually time deposits. Several years ago, I think the bank reports showed that approximately 1/6 of savings deposits were in reality demand deposits.—A. I know what you mean. The amount on which the chartered bank pays interest is the minimum quarterly balance in a savings account. Apparently that was only 85 per cent, let us say, of the total balances in those savings accounts. Therefore, the remaining 15 per cent must have had cheques drawn against it or been new deposits. In addition to that, there has been a constant tendency towards growth and the increase would not be eligible for interest until the following period.

Q. Is it generally considered that savings deposits should be time deposits and that notice of withdrawal should be given?—A. There is a good deal of discussion and consideration going on—that could be one of the features. Another could be that checking accounts would be treated differently from savings accounts that did not have cheques drawn on them, without actually making them time deposits. I think that is under consideration.

By Mr. MacEachen:

Q. May I refer to a question by Mr. Bell? Did you say you had no statistics deposits by provinces available yourself at the moment or that there are none in existence?—A. I do not think there are any in existence.

Q. Of provincial deposits?—A. No figures of bank deposits by provinces are available.

By Mr. Bell:

Q. In instalment buying, you would not have any figures?—A. No, I do not think so, not by provinces.

By Mr. MacEachen:

Q. A well known consultative firm in Biston, Arthur D. Little, is making a survey of economy in Nova Scotia and they have had at their disposal

comparative information on saving in that part of Canada and in various parts of the United States.

The CHAIRMAN: They would get that from the chartered banks, would they not?

By Mr. MacEachen:

Q. The reason I say that is that I have made some statements regarding savings, in the House of Commons, and I wanted it to be known I was not speaking without foundation.—A. I have not seen those figures.

By Mr. Richardson:

Q. Would they not be in the table on page 15?—A. Not by provinces. I have never seen anything by provinces.

By Mr. Bell:

Q. I appreciate you would not want to break things down into provinces and it would not be desirable in your own case, but do you not think direction would be necessary to certain sections of our economy that would be in need of extra encouragement, to save and not to go for installment buying in the same way? Where do you think that should come from or do you not think it is necessary?—A. We are a country of a number of different regions. Each region has institutions of its own dealing particularly with regional problems and local matters. It might be of interest in any one region to engage in a study of that, but I do not think it would be our job.

By Mr. Quelch:

Q. Do you consider that a matter for government action rather than banking action?—A. It is not a statutory responsibility of the Bank of Canada.

By Mr. Bell:

Q. In regard to advertising, the chartered banks themselves are advertising on a national scale in regard to savings and bank accounts and related subjects. They do not take into consideration the various problems of the region. There might be some areas, where, with a little bit of proper education in the right way they could solve a lot of their problems?—A. That might be so. It is always difficult to say that someone should go in from outside and do that. Sometimes you come to an unhappy fate by doing that sort of thing.

By Mr. Blackmore:

Q. I should like to pursue a little further this question of the need for more money. I think the expression was used originally by the Rt. Hon. William Lyon Mackenzie King around about 1935 when he said: "We want currency and credit in terms of public need." That has been as far as that hon. gentleman ever went in respect of elucidating the meaning of "terms of public need" or elaborating it. I was probing that with Mr. Dunning at one time around 1938 on the floor of the house and, as I recall it, the progress he helped me to make was this: "It was the needs of business". Would Mr. Coyne feel I would be safe in assuming that would be a satisfactory definition?—A. I do not know. If you are drawing a distinction between business and the rest of the community, I could not agree with that.

Mr. BLACKMORE: I am still groping around to get something to which I can tie. Supposing we took it as being what Mr. Dunning said quite confidently when he said "It was the needs of business", we would have something we could take hold of.

Mr. MACDONNELL (*Greenwood*): Might I ask Mr. Blackmore a question? Do you not think it would mean the real needs of economic activity, or business as distinct from profession?

Mr. BLACKMORE: Yes, he meant economic activity of the producers and salesmen and all the rest.

The WITNESS: It seems to me one has an interest in money not as something in itself, but as something which has a role to play. It is a useful commodity. You could have an economic system run without money, at least without a circulating medium; but you can probably run it easier and have a higher standard of living by having a monetary system. The test seems to me to be, as regards whether you have enough money, whether your economic system is functioning satisfactorily. If it is, it would be pretty hard to say you did not have enough money. If it did not function satisfactorily, it may be that the money supply would be one cause but it would not necessarily be the only cause of the trouble. The cause might be somewhere else. Therefore, when you say "what does it mean when there is a need for more money, or how do you tell?" I can only look at the signs of various kinds of the state of the economy. The fact that some person or customer may say he has too little money does not mean there is too little money for the country as a whole. The central bank is a single national institution for the whole country.

The CHAIRMAN: Are you not trying to sink your teeth into something that is not solid, Mr. Blackmore?

By Mr. Blackmore:

Q. From the way we have gone, I have found it difficult to advance it, but I imagine it is something which is solid but not very real. It is something we cannot conceive of, because we use it quite unconsciously as part of the stock and trade.—A. I used it in connection with the situation where business is expanding and the economy as a whole is expanding, where capital investment is going on at a high rate, where the gross national product is rising, where the total volume of sales is rising. That will give rise to a need for more money and that need would manifest itself.

Q. In terms of borrowing?—A. Yes. First of all, in a larger circulation of notes which would show up if people took money out of the banks because there was a need for more notes. Then perhaps the total volume of money would go up by at least the increase in the note issue, and it would be conceivable under certain circumstances that the total volume of money should go up even more. If the increase in demand were greater than in supply, it would show itself in higher interest rates.

Q. So in order to narrow the matter down and make progress, I would probably be justified in saying it is the amount of money which producers or potential producers wish to borrow?—A. That is only one side of the picture.

Q. I want to talk about the other the next time.—A. They want to borrow because they want to carry on various projects.

Q. To produce?—A. A lot of them may want to compete with the next fellow as to who is going to do the producing and the volume of production may not be affected at all. In those circumstances the demand for money would be excessive.

Q. In either case, it is more money they want to borrow, to produce, whether it is necessary or competitive?—A. Greater production may be impossible and the only question at issue may be whether Smith or Jones will do the producing. It would be undesirable to give both of them all the money they wanted, as they would just be competing for the supply of goods and production facilities which was insufficient to satisfy them both.

Mr. BLACKMORE: I agree, but in any case the main thing is that Smith and Jones want more money in order to produce.

The CHAIRMAN: Have you further questions?

Mr. BLACKMORE: I wish to ask a good many questions.

The CHAIRMAN: I realize that, but it is up to the committee to decide.

Mr. MACDONNELL (*Greenwood*): I would like to ask a few more questions also.

Mr. BLACKMORE: We are only beginning to get into the whole problem. The thing I want to know in respect of this report of Mr. Coyne's is whether all is well in the Canadian economy as far as the Bank of Canada can see it.

The CHAIRMAN: Very well. Subject to the pipeline debate, we will have another meeting a week from today.



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HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

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STANDING COMMITTEE



ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 11

The report of the Bank of Canada for the year ended
December 31, 1955

TUESDAY, MAY 29, 1956

WITNESS:

Mr. J. E. Coyne, Governor, Bank of Canada

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.
and Messrs.

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|-----------------------------------|---------------------------------|------------------------------------|
| Argue | Fulton | Pallett |
| Ashbourne | Gour (<i>Russell</i>) | Philpott |
| Bell | Hanna | Power (<i>Quebec South</i>) |
| Benidickson | Henderson | Quelch |
| Blackmore | Hollingworth | Regier |
| Cameron (<i>Nanaimo</i>) | Huffman | Richardson |
| Carrick | Low | Robichaud |
| Crestohl | Lusby | Rouleau |
| Deslieries | Macdonnell (<i>Greenwood</i>) | St. Laurent (<i>Temiscouata</i>) |
| Enfield | MacEachen | Stewart (<i>Winnipeg North</i>) |
| Eudes | Macnaughton | Thatcher |
| Fairey | Matheson | Tucker |
| Fleming | Michener | Valois |
| Follwell | Mitchell (<i>London</i>). | Viau |
| Fraser (<i>Peterborough</i>) | Monteith | Vincent |
| Fraser (<i>St. John's East</i>) | Nickle | Weaver |
| | | White (<i>Waterloo South</i>) |

Eric H. Jones,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, May 29, 1956

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Bell, Benidickson, Blackmore, Cameron (Nanaimo), Carrick, Deslières, Fairey, Follwell, Fraser (St. John's East), Gour (Russell), Hanna, Hollingworth, Hunter, Matheson, Michener, Pallett, Philpott, Quelch, Richardson, Robichaud and White (Waterloo South).

In attendance: Mr. J. E. Coyne, Governor; and Mr. R. W. Lawson, Deputy Chief, Research Department; both of the Bank of Canada.

(Note: The Committee first dealt with two Private Bills, in respect of which verbatim evidence was not recorded.)

At 12.00 o'clock noon, the Committee continued its consideration of the report of the Bank of Canada for the year ended December 31, 1955.

Mr. Coyne requested authority to record certain revisions to the printed record of his and Mr. Marble's evidence before the Committee on Bill 165, An Act to amend the Industrial Development Bank Act, on May 1, 1956, being Issue No. 7 of the Committee's proceedings, namely:

on page 250, line 27, to delete the words "let us say, up to \$4 million dollars per year,";

on page 252, line 22, to delete the word "borrowing" and to substitute therefor "operating";

on page 253, line 17, to delete the word "lives" and to substitute therefor "loans";

on page 253, lines 33 and 34, to delete the words "but purely as a monetary operation on our resources, I mean those of the Industrial Development Bank";

on page 259, line 3, to insert a period after the phrase "That is one factor";

on page 259, line 20, to delete the word "item" and to substitute therefor "term";

on page 259, line 22, to delete the words "and did make them on demand"; and

on page 269, line 19, to delete the word "over" and to substitute therefor "under".

On motion of Mr. Gour (Russell),

Resolved,—That the recording of the above-mentioned revisions be authorized.

Further, Mr. Coyne explained his answer to Mr. Regier's question on page 265, lines 48 and 49, of Issue No. 7 of the Committee's proceedings on May 1, 1956, on Bill 165. (*See this day's Minutes of Evidence.*)

Also, Mr. Coyne requested authority to clarify and elaborate his answer to a certain question by Mr. Cameron (Nanaimo) during the proceedings of the

Committee on May 22, 1956, on the report of the Bank of Canada, which proceedings had not yet been printed. (*For details, see this day's Minutes of Evidence.*) The Committee agreed to Mr. Coyne's request that that proceedings be printed as revised.

Continuing the questioning of Mr. Coyne on matters arising from consideration of the report of the Bank of Canada, Mr. Blackmore distributed to the Committee copies of a set of 42 questions which he proposed to ask Mr. Coyne. Mr. Blackmore requested that his set of questions be printed in this day's proceedings with a view to their being answered by Mr. Coyne during this and subsequent sittings. Following debate as to the relevancy of certain of Mr. Blackmore's questions to the Order of Reference, the Committee did not concur in Mr. Blackmore's request. Thereupon Mr. Blackmore proceeded to put his questions seriatim, Mr. Coyne replying briefly to them.

At 1.00 o'clock p.m., the Committee adjourned to the call of the Chair.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

May 29, 1956,
12.00 noon.

The CHAIRMAN: Gentlemen, we will resume consideration of the annual report of the Bank of Canada.

Before we do so, I wish to state that, in regard to the proceedings and evidence, Issue No. 7, relating to Bill No. 5, to amend the Industrial Development Bank Act, Mr. Coyne has pointed out certain items which he considers to be incorrectly recorded in the printed proceedings. Some of these may be just typographical errors; others may be errors in not getting it down correctly. I have a list of them which Mr. Coyne has given to me, and if members have Issue No. 7 before them, I will read the list: In regard to page 250, line 27, he suggests to delete the words "let us say, up to \$4 million per year". He stated to me that if he said that he did not mean it. On page 252, line 22, he suggests to delete the word "borrowing" and to substitute therefor "operating". On page 253, line 17, to delete the words "lives" and to substitute therefor "loans". Further down on page 253, lines 33 and 34, he suggests to delete the words "but purely as a monetary operation on our resources, I mean of the Industrial Development Bank". Perhaps Mr. Coyne you could explain what has happened there.

Mr. Coyne, Governor, Bank of Canada, called:

The WITNESS: In regard to what I am reported to have said in those proceedings, Mr. Chairman, I do not know what these phrases mean. I may well have mixed things up when I was speaking in the first place, or perhaps something has happened in the transcription. In any event I do not think the words as they are written have any intelligible meaning, and if it is all right with Mr. Quelch the first four or five words answer his question without the additional ones.

Mr. QUELCH: Yes.

The CHAIRMAN: Mr. Coyne also suggests on page 259, line 3, to insert a period after the phrase "That is one factor"; that is a separate sentence. On the same page, line 20, he suggests to delete the word "item" and substitute therefor "term". It was obviously meant to be a term loan. Also on page 259, in line 22, he suggests to delete the words "and did make them on demand". Obviously a term loan cannot be a demand loan. On page 269, line 19, he suggests to delete the word "over" and to substitute therefor "under" to make the phrase read: "I would say none under a year." Not all, but some of those changes, change the meaning of the evidence, and therefore I bring them to the attention of the committee. Would someone move that these amendments be made?

Moved by Mr. Gour (*Russell*) that the revisions requested by Mr. Coyne be recorded.

Agreed.

The WITNESS: There is one more point. At the bottom of page 265 of Issue No. 7 of the Committee, lines 48 and 49 Mr. Regier's question entirely. He was asking questions, I think, designed to ascertain what would be done

by the Industrial Development Bank in the event of monetary policy, or financial policy generally, changing in one direction or another. I thought that particular question was: "Supposing the Bank of Canada or the Finance Department on its own, in the public interest, at a certain time thought there ought to be a restriction of industrial development?" I answered: "I cannot imagine such a decision being made by anybody." In the record, M. Regier is recorded as having spoken of an "expansion" of industrial development. Of course, I would not have said I could not imagine anyone desiring an expansion of industrial development. There is a further aspect of this given on the following page, 266, and there I think this point becomes clear, because Mr. Regier talked about the depression when he said he felt there were restrictions and not enough industrial development, and he went on: "Now, you are saying in effect that the Industrial Development Bank is being guided by the financial policy of the government." The answer was: Well, it is guided as an Industrial Development Bank by the policy laid down in the act which is to encourage the expansion of industry and to help and assist it. I do not see how it could operate under any other basis. I am sure the members of the committee know I did not say that I did not desire people to expand industry, but the record reads that way, so I would like to have at least this chance to correct it.

The CHAIRMAN: Mr. Regier is not here, so we cannot really ask to have the word "expansion" changed to "restriction". However, I think with that explanation that is sufficient in the minutes. We are prepared now to go on with the annual report of the Bank of Canada.

The WITNESS: At the last meeting, of the Committee, on May 22nd, when talking about the period 1950-51, Mr. Cameron said: "I believe two-thirds of the post war expansion in total money supply took place in 1950-51?" and I replied: "Yes, I dare say."

Well, I was quite mistaken. I must have been thinking of the big inflow of money from the United States, or something else. So far as the money supply is concerned, I proposed giving the committee the figures in the post-war period.

Mr. BENIDICKSON: Mr. Cameron spoke to me about this, and I wonder if it could be deferred until he comes back?

The WITNESS: Perhaps I may just give the figures. Taking as a crude definition of money supply the holdings of currency and bank deposits by the general public, which excludes bank deposits held by the Government of Canada, the total held at the end of the year 1945 was \$5,905 million. The annual increases in millions of dollars in the years 1946 to 1955, respectively, were as follows: 947, 235, 656, 430; 539 in 1950; then 25, 565, 43, 823 and 745.

The CHAIRMAN: Gentlemen, I do not think the minutes proceedings of evidence of our meeting on May 22nd have yet been printed. Would it be desirable to insert this information in the relevant position in the minutes?

Mr. MICHENER: I suggest that the information and figures which Mr. Coyne has given us be inserted and printed.

Agreed.

The CHAIRMAN: We will now continue with Mr. Coyne under our order of Reference of the report of the Bank of Canada. Would those who wish to ask questions so indicate, so that we may have them in proper order? Mr. Blackmore has a few questions to ask.

Mr. BLACKMORE: Just before I start asking questions, may I tell the committee I thought that probably they would like to have before them the questions which I will ask, so that they would not have to rely so much on memory. Therefore, I have made copies of the questions and I propose to have the messenger distribute a copy to each of the members so far as copies are available. I aim at getting a copy within the reach of every member of the committee, but as there are more members than copies, some will have to read them together.

Before we commence asking these questions, I may say I do this with abject humility. These are not put with the thought that I know any more than anyone else. It happens that in the past 23 or 24 years it has been my business to study the matter of money, and form some ideas as to what money is, and how it could be managed; and the questions which I have drafted are what I thought would bring out the information which I think is lacking in the minds of many people in respect of money. There is a lot of confusion as to what constitutes inflation, so I have asked some questions about that. I will read these questions, and you can let me know if I am not reading loudly enough. The questions are:

1. What is the actual meaning of the expression "The country needs more money" as that expression would normally be used by the Governor of the Bank of Canada?

1-A. Would that expression mean that without more money in circulation there is a threatening danger of depression, that is, a fall of prices through having too few dollars chasing too many goods? That is, having what might be called overproduction or being in a surplus supply position?

You remember that during the great depression it was commonly said we were in the midst of overproduction.

1-B. Does the expression mean that productive enterprise throughout the country needs to be able to borrow more money, and, or cheaper money, or both, in order to produce more of foods, of clothing, of shelter, of services, or of the implements required in producing these or any other of the needs of life, etc?

Or

1-C Does the expression mean that producers as a whole need more money in the hands of consumers in order that producers might be able to sell their products?

1-C(A). Does not the \$2½ billion of 1955 borrowing for consumption indicate producers need far more purchasing power in consumers hands?

1-C(B). Does not the almost fantastic terms of sale being offered by certain classes of producers indicate also the great need of producers for more money in consumers' hands, such offers as \$1 down and \$2 a week on Frigidaires, television sets, deep-freeze equipment?

1-D Does the real meaning of "need for more money" actually happen to be the need of money-lenders in the money market to keep money relatively scarce and relatively costly in point of interest rates so as to enable those money-lenders to loan their money profitably?

I think this question should be probed into with the utmost care, because if the meaning is the last one that I have given it is an exceedingly serious matter indeed. The next question is:

2. Bearing in mind the two aforementioned evidences of needs of business to have in circulation more money with which potential consumers might buy products of manufacturing, would we not be justified in assuming positively that there exists throughout the Canadian

economy, generally, a definite shortage of purchasing power in the hands of consumers, from which shortage many producers are suffering by reason of inability to sell their products?

Mr. CARRICK: I do not see what good it is going to do to ask all these questions and to put them on the record, if we have no answers to them.

Mr. BLACKMORE: I will put the questions on the record. If we do not have time for Mr. Coyne to give answers to the questions now, or if he wishes to take more time to consider them further, we will go on and finish in the next sitting of the committee. I presume that to do otherwise would be to put Mr. Coyne in a set of circumstances to which no man should be subject, to answer questions like this without very careful thought.

Mr. CARRICK: Would it not be better to give Mr. Coyne a copy of the questions and to let him study them?

Mr. BLACKMORE: He has a copy now. My purpose is to finish putting the questions and then to let him answer them so far as time permits.

Mr. CARRICK: It would be impossible to get satisfactory answers to these questions in that way. If you want to get an answer to a particular question, surely the only way is to give Mr. Coyne an opportunity to answer question No. 1 and so on.

Mr. BLACKMORE: I do not think it will take time.

Mr. CARRICK: I am not objecting if Mr. Blackmore wants them on the record, but I think it is a useless procedure so far as getting information from Mr. Coyne is concerned.

The CHAIRMAN: It strikes me, Mr. Blackmore, that these questions have one facet to them which is almost an argument; and that you are developing the thing from question to question as you go on, and, if you put them all at once, you may end up with conclusions which may or may not be correct, depending on the correctness of the inferences.

Mr. BENIDICKSON: Question 2 seems to presuppose an answer from question 1, before Mr. Coyne has given an answer.

The CHAIRMAN: In question 2 it seems to me, Mr. Blackmore, that you may be drawing inferences or conclusions which are not necessarily correct from question 1 and its subparagraphs. Therefore, if you have drawn an erroneous conclusion or inference at that stage, the rest of your assumptions may not be correct.

Mr. BLACKMORE: Would it not be wise to get them all on the record, so that Mr. Coyne could single out those where there may be a wrong conclusion, or so that members of the committee could single them out? I thought that in order that Mr. Coyne might have a fair chance to answer the questions, he should have them all, so that he can relate the answer to one question to another question.

Mr. CARRICK: I would be opposed to following that procedure. I do not think it a proper course or one that would be helpful to us. Mr. Coyne has been supplied with a copy of the questions. If Mr. Blackmore had a particular question, and if Mr. Coyne were given the opportunity, he could answer each one as he came to it, and that would make the question and answer intelligible.

The CHAIRMAN: It seems to me that if this is within the realm of Mr. Coyne—it covers the whole field of economics, or certainly the theory of money and currency, and other facets also—therefore he should start answering, question by question.

Mr. CARRICK: And if he is not prepared now, as he has only now got the list of questions, he should be given an opportunity of studying it.

The CHAIRMAN: Perhaps we should ask Mr. Coyne whether he is prepared to start answering, question by question.

Mr. BLACKMORE: I said, I think, at the close of my remarks at the last meeting, that I was particularly interested, and I think the people of Canada are particularly interested, in the Bank of Canada doing a good job which the people of Canada want done; and Mr. Coyne has a right to say whether he thinks it is doing the job. We know that something is radically wrong with the economy under present conditions, and, if the Bank of Canada is not responsible, we want to know who is.

The CHAIRMAN: Mr. Blackmore, when you say: "We know there is something radically wrong", why not speak in the first person? You cannot speak for everyone here.

Mr. BLACKMORE: I am glad to change it to "I". When the old age pensioner is asked to exist on \$40 a month, I think there is no doubt in the minds of the committee that there is something radically wrong in Canada.

Mr. HANNA: This is a deliberative committee. Surely it is reasonable to ask Mr. Blackmore to ask questions one by one, so that we may follow question and answer.

The CHAIRMAN: I quite agree, but it is a matter for the committee. In what form does the committee desire the questions put?

Mr. QUELCH: If it is intended to ask them one by one, I think it is only fair to Mr. Coyne that he should have a chance to read them through in advance, in order to have the answers, and to have an opportunity to deal more adequately with the subject.

Mr. FOLLWELL: Perhaps Mr. Coyne would indicate whether he is prepared to go ahead now. If he indicates he is prepared to answer questions, let us have them.

Mr. BLACKMORE: My object is to be fair to everybody so that this committee may study the whole situation in the light of the circumstances. I believe everyone on the committee wants to do that.

Mr. HOLLINGWORTH: I am very happy that Mr. Blackmore has some questions, and I think they are of great importance to the committee and to the country, but I am inclined to agree with Mr. Hanna that we should have them one at a time. I think it is important that we discuss these questions, even if perhaps they are a bit broader than the usual questions. It is a very important subject, as Mr. Blackmore says; and I think Mr. Coyne would be very happy to deal with them, but I think the questions should be put one at a time.

Mr. BLACKMORE: I am a little under pressure. I am appointed to go to New Brunswick, so that I will not be here for the next two weeks. If I do not put the questions now, I will not have an opportunity of doing so. If I put them now, Mr. Coyne will have an opportunity of answering them at a succeeding meeting.

The WITNESS: I am here to meet the convenience of the committee and to be helpful in every way I possibly can, particularly in answering questions on matters dealt with in my annual report for 1955, and more or less the current events over the last year or two. It would be quite a different job for me to be expected to engage in a very long discussion on the whole field of economics, or even monetary theory. That would take an awful lot of time, both of the committee and of myself. So far as this particular set of prepared questions is concerned, which I have seen just now for the first time, I am inclined to think they cannot be dealt with as a whole, because the answer to the first question might require a rephrasing of all the remaining questions.

Mr. FAIREY: Would it be in order to suggest that these questions might be published, if you like, as an appendix to the proceedings, and left for discussion at a future time? I do not think it is fair to ask Mr. Coyne to start answering prepared questions which take up nine typewritten pages.

The CHAIRMAN: It would be quite a bit of homework!

Mr. BENIDICKSON: I do not think that would quite cover it. The question of relevancy comes up, question by question. That is a matter for the committee to decide upon. If the questions are really not within the purview of the terms of reference of the committee, I do not think it is proper to put them. Each question has to be looked at in turn.

The CHAIRMAN: I quite agree. I cannot see making these questions an appendix to the proceedings. Some of the inferences which are drawn from some of these questions, and which lead on to the next question, may be erroneous, which means the next question has to be rephrased. In addition, some of these may be extremely irrelevant to the Bank of Canada whose report we are considering. I do not know—some of them may be. I suggest that Mr. Coyne take these questions away, read them, and come back prepared to take them step by step, and then, if we wish to broaden the scope of them and ask questions ourselves, we are in a position then to do so.

Mr. FAIREY: I am in a little doubt as to whether, as Mr. Benidickson said, the committee is empowered to deal with questions as broad as these.

The CHAIRMAN: Some of these questions could be within our purview and have to deal with central banking; others may not be. That will be for the committee to decide.

Mr. HANNA: I think we are interested in these questions, but they should be taken one by one. Mr. Blackmore says he cannot be here in the next couple of weeks. Might I suggest that one of his colleagues take over the job if he cannot be here, and that the questions be put one by one? I think we can best follow the matter if we deal with them one at a time.

Mr. BLACKMORE: Might I say another word? Members will remember that, either at the last meeting or the meeting before, I quoted a wire which had been sent by my constituency to Mr. Coyne, protesting against the measure of increasing the bank rate because of its affecting them adversely. Before I can tell to what extent they are justified, or the Bank of Canada is justified, in putting them "through the wringer", in order to assess the general situation in Canada, I pretty well have to have all these questions answered, and I believe pretty nearly every one has to have the answer.

The CHAIRMAN: Mr. Blackmore, our terms of reference are "That the report of the Bank of Canada for the year ended December 31, 1955, tabled March 1, 1956, be referred to the said committee". Surely it is up to the committee at all times to determine the relevancy of the questions you are asking with respect to the terms of reference of the Bank of Canada annual report. I do not think anybody here wishes to be technical and to say someone cannot ask a certain question, because there is not a certain word in the report. I think everyone here is interested in central banking and what it can accomplish, and its value, and things of that nature, but there may be many thing in these questions that are outside the field of banking.

Mr. BLACKMORE: There are, I promise you that.

The CHAIRMAN: That is a question for the committee to decide, not for you. I think Mr. Coyne should have a chance to read these questions, and then we should go back and ask them, question by question. The committee can decide in each case whether or not the question is relevant, whether Mr. Coyne needs to answer, and whether there are other questions in respect of each question to which we want an answer. I think that is the only fair

way. Otherwise, it would be bound to become a monologue, and almost a lecture. I do not think that is the purpose of the committee under its terms of reference. If that is agreeable to the committee, I would recommend that that be done.

MR. BLACKMORE: May I say a word to the committee before you make that recommendation? I do not wish to be an annoyance to the committee but I should like to do a good job. Mr. Macdonnell asked Mr. Coyne in regard to the Finance Act of 1914, and Mr. Coyne said he had not time to acquire the familiarity with that act which would enable him to answer Mr. Macdonnell as he would like. He did not use those words, but that was the meaning. It seems to me that we ourselves ought to go into the Finance Act of 1914, and the act of 1923—and certainly that has to do with the Bank of Canada—because the Bank of Canada replaces the situation under the acts of 1914 and 1923. I do not think you can make it out any other way, but I may be all wrong.

The CHAIRMAN: It is just possible.

MR. BLACKMORE: It is just possible. That is the case for many of these questions, as I assert that these questions have a positive bearing on the Finance Acts of 1914 and 1923, on the report given by the Royal Commission on Banking and Currency for Canada, 1933, which is the report on which the founding of the Bank of Canada was based. The next thing which I think it is important to bear in mind is that in the report which Mr. Coyne issued—and it is a good report—he tells us in effect that the banks have reached an agreement under which the chartered banks will maintain a 15% liquid reserve. Now, the justification for that should be probed, it seems to me. Certainly we should inquire into what the Governor has told us, as to how and why they have raised the bank discount rate of the Bank of Canada. It seems to me, if I understand and appreciate that, that the brief requires more study than anything we have done thus far.

MR. BENIDICKSON: I understand Mr. Blackmore has intimated to the committee that he wanted to pursue matters of this kind, and if they seem to be related to the report of the governor it would likely take two or three meetings of the committee. I would look forward to these discussions and think they would be profitable, but still that does not get away from the procedure we must follow in committee to deal with this type of matter in a reasonable way. I still think we have to deal with questions seriatim, whether we make a start this morning on question 1, and put it to the witness, or whether the committee may feel they would prefer Mr. Coyne to take the questions away and that we should have another sitting on them. I sympathize with Mr. Blackmore's desire to present these questions in an unusual way, because of some personal obligation he has in the near future. I hope he will cancel that obligation, because I think everyone will recognize that as questions are presented to a witness it is frequently necessary for the witness to say to the questioner: "What do you mean by your words so and so?" I think it would be impossible for Mr. Coyne to answer some of these questions without having Mr. Blackmore here to interpret the words he uses in his questions.

MR. BLACKMORE: I greatly appreciate all that, and if you will bear with me I will say one word more. Mr. Coyne said, according to my note, that he would be glad to answer any questions or participate in any discussion. I thought that a most co-operative attitude on Mr. Coyne's part, and I commend him for it. I think that certainly opens the ground for all the discussion which will arise as a result of the asking of these questions. I may say these questions are all my own: they are not a set someone sent me to ask; they are my own, and I propose to follow them.

The CHAIRMAN: I think Mr. Coyne's statement must be taken with some limitations. He is not proposing to discuss questions of geography or mathematics, only those in connection with the Bank of Canada.

Mr. BLACKMORE: We will not be asking anything like that; it will be all financial.

The WITNESS: I must put in a bit of a disclaimer. I hope I always will be forthcoming and co-operative with the committee, but I can only talk out of my own experience, and particularly with reference to the Bank of Canada, and how it has operated in the last few years. Indeed, it is only the operations of the bank in the last year—or two years, because the report covers a little more in fact—that I understand is before the committee. I told the committee the other day that I could not answer questions about the Finance Act of 1914, because I know very little about it and really I do not think it is part of my business to go and study it. I have got plenty on my plate right at the moment in connection with the affairs of 1956, and of central banking as it is carried on nowadays, in accordance with my ideas of central banking as I have acquired them. Therefore, I am afraid there would be a good deal of these background questions and theoretical questions with which I just would not be competent to deal. I take it that parliament settled this question of the Finance Act away back in 1935 when it set up the Bank of Canada, and I would not want to have to get into a long study of that question myself.

Mr. BLACKMORE: I think the Bank of Canada is on trial. I am not saying that Mr. Coyne has not administered the Bank of Canada with all the skill and sincerity that a man should exercise, and I am quite sure he has done so. But, at the same time, is it not about time to have a general review of the whole situation to see whether that bank is doing the job which it was set up to do and, if it is not, to suggest changes which are necessary in order to enable it to do the job; or to find out who is supposed to do the things which are beyond the purview of the Bank of Canada's responsibilities?

Now, I am entirely in your hands. I will put the questions in Mr. Coyne's hands to study, and in your hands, Mr. Chairman, and in the hands of the committee. I will be in New Brunswick in the next two weeks, and after that I will be available, if it is the desire or the will of the committee, or the indulgence of the committee, to put off further meetings on this report until I return. Then I will be happy to take up the matter again.

The CHAIRMAN: Mr. Blackmore, I do not think you, as a reasonable man, could expect the committee to put off meetings because you desire to go to New Brunswick. Let us be fair. If you wish to ask questions on these matters, I think you should be here at the committee meetings as they are called. If you are not prepared to be here, we can only deal with questions as they come up, and perhaps you would have a colleague here to deal with them.

Mr. CARRICK: I am opposed to that. I do not think it is a proper way for the committee to proceed. I think that if any member of this committee wants a question asked he should be here to ask it. I do not think it is a proper procedure, to prepare a list of questions, and then not to be here to put the questions; it leads to an impossible situation.

The CHAIRMAN: I must say it does not seem to me to be the proper way to conduct a committee, to have a set of questions submitted and not to have the member asking them here when they are answered. I have never before heard of such a thing. I am not saying it could not be done, but I feel that it is only common courtesy that, if you wish answers to questions, you should be here to explain them and ask them.

Mr. BLACKMORE: Then I will be prepared to start with question 1 and to go as far as I can today.

Mr. CARRICK: Why not put questions—whether he wants to put these or others?

Mr. FOLLWELL: That is what I suggested 15 minutes ago.

Mr. CARRICK: We will soon see whether the questions can be answered or not.

Mr. FAIREY: Before we start, have we not some unfinished business, the adopting of this report?

The CHAIRMAN: Our terms of reference do not instruct us to adopt the report.

Mr. FAIREY: We have concluded, we are finished with it?

The CHAIRMAN: No, we are not through with it by any means; and it is up to the committee to determine the relevancy of these questions in relation to the terms of reference. Are you prepared, Mr. Coyne, to start dealing with these questions, one by one?

The WITNESS: I will deal with questions asked of me, as well as I can.

The CHAIRMAN: Will you start, Mr. Blackmore?

Mr. BLACKMORE: Thank you very much. I appreciate the indulgence of the committee. This is the first question—perhaps I may recall that as regards the meaning of the words “need for more money”, we roamed all round, back and forth, in previous committee meetings, and I am not sure that Mr. Coyne would have anything to say additional to what he said before—as to what is the actual meaning of the expression “need for more money”? I think from what Mr. Coyne said we are very much in the air as to the meaning of the statement. What do we mean by saying “the country needs more money”?

The CHAIRMAN: How about letting the witness answer?

Mr. BLACKMORE: Oh no. I just want to clarify it.

The WITNESS: That question was asked on a previous occasion, and I answered at some length; and I think I would like to let that answer rest.

By Mr. Blackmore:

Q. The reason why I find this so important can be illustrated by the example of a case where the wife goes away and has to leave the husband to bathe the baby. She tells him that when the room is “warm” enough, he is to bathe the baby, but she does not tell him the meaning of the word “warm”. The husband is completely at a loss to know at what temperature he should start. It is very much the same way with the phrase “the need for more money”. If the only person in the country who is qualified to tell by the feel of the atmosphere, or by some other means, perhaps, some occult or mystic sign, the need for more money is the Governor of the Bank of Canada, then it is next to impossible for any member of parliament to make an intelligent appraisal of Mr. Coyne’s decision or action.—A. Is this a question?

Q. No, I am clarifying it. I go on to the next question:

Would that expression mean that without more money in circulation there is a threatening danger of depression, that is, a fall of prices through having too few dollars chasing too many goods? That is, having what might be called over-production or being in a surplus supply position?

If the answer could be given there “yes” that would be something. Is that what you mean by the country “needing more money”?—A. I think the answer was included within the answer I gave on a previous occasion.

Q. Is that to be the meaning of “need more money”?—A. I think I should stand by what I have said already.

Q. We are under this difficulty—that there is no printed record yet of previous replies. Of course, it is just as difficult for me to remember what Mr. Coyne has said as it is for himself, and consequently we have nothing to guide us. As far as I can recall, Mr. Coyne did not answer that particular aspect of the question specifically. His answer did not give us a chance to know whether that would be one of the signs as to the country needing more money.—A. My answer mentioned quite a lot of signs. You will find it all in the record, I trust, but no doubt you made notes of your own as I answered your questions on previous occasions.

Q. I went through very carefully what Mr. Coyne said, because I had the transcript to examine, and he has checked it, but I do not wish to go into too many details. In the United States, when the great depression was on, certainly anyone would say they needed more money in circulation—just as we did here in Canada; we also needed more money in circulation, yet the minute anyone suggested putting more money into circulation in Canada certain people rose up to object.—A. That is not the kind of question I can answer. I can only deal with my own experience and the operations of the Bank of Canada during the period in which I have held a senior position there.

Mr. BLACKMORE: I was only introducing that as an illustration so that the people here could follow. In the United States, according to Professor Irving Fisher, in his "100 Per Cent Money," there were \$23 billion in circulation at the time when the depression struck. By the time the depression got to its depth, \$8 billion of that \$23 billion had been taken out of circulation. Hon. C. H. Cahan said in 1933 in Toronto that in Canada during the depression \$932 million had been withdrawn from circulation. That was the position we were in at the trough of the depression. Any one would say certainly that that money ought to go back into circulation, if the country was to become normal, but the main question was how to get that money back into circulation.

The CHAIRMAN: Mr. Blackmore, I think that at this point you are almost orating. Have you questions to ask. That is what the witness is here to answer, if he is able.

Mr. BLACKMORE: I want to know specifically—

Mr. BENIDICKSON: Mr. Chairman, I want to be helpful to Mr. Blackmore. He gave two instances which I think are irrelevant. He said some of his constituents felt adversely affected by certain operations of the bank within the past year. I assume that was based on either too much money in circulation or too little. If Mr. Blackmore could confine his questioning of the governor to a subject which is pretty closely related to that, and something not already answered, I think everyone on the committee would like to co-operate.

Mr. BLACKMORE: I appreciate that, but I presume I cannot have an answer to that particular question, which is, at the time in which we live now, one of the most important.

The CHAIRMAN: Which particular question?

Mr. BLACKMORE: Suppose there were to develop over-production, and we were to fall into a depression, what would the country need? Would not it need more money then? Then if it did so need, the question would be how to put that money into circulation.

The CHAIRMAN: Let us take them question by question.

Mr. BLACKMORE: I am doing that.

The CHAIRMAN: You are saying that if such and such is the answer, then things are so and so. Why not wait until you get the answer?

Mr. BLACKMORE: Would the answer not be to question 1-A and 1-B "Yes" to the question "Do we need more money?" Would not the answer be "Yes"?

The CHAIRMAN: I doubt very much whether we could get an unequivocal answer to question 1-A. It covers a broad field and surely requires many qualifications in any answer. It may be part of the truth, but it may be only one facet. I do not think economic laws are that simple—or everyone would understand them, and all economic problems would be solved.

Mr. BLACKMORE: We all appreciate they are not simple by any means, but if in a general way the question could be answered, with reservations, then in getting the answer we would be attaining something.

The CHAIRMAN: You have already asked this question and the witness has said he feels he answered it at the previous meeting and that he is prepared to stand by the previous answers.

Mr. BLACKMORE: Maybe the witness has his words from the previous meeting and would not mind repeating them.

The CHAIRMAN: I do not know whether he could repeat them verbatim. Probably he could give a summary.

Mr. BLACKMORE: He has a manuscript, has he not?

The WITNESS: I would have to read a good many pages, because there are long passages and quite a number of questions, all relating to the same matter. I do not know what further good it would do to read them out again at this meeting, any more than to have done it on the previous occasion. They would just go into another transcript a second time and we would not be any further ahead than we were.

Mr. BLACKMORE: Supposing we go to question 1-D and leave the others. Let us assume they have been covered in a very vague manner by the Governor of the Bank of Canada. I will not say he could have been, in his position, more specific.

The CHAIRMAN: I think it would be fair to the witness to say "What you believe to be vague".

Mr. BLACKMORE: That is my opinion.

The CHAIRMAN: I think you should make it your opinion rather than a definite statement, because it may not be others' opinion.

By Mr. Blackmore:

Q. I would be glad to make it my opinion, Mr. Chairman. Now, coming to 1-D, it is:

Does the real meaning of "need for more money" actually happen to be the need of money-lenders in the money-market to keep money relatively scarce and relatively costly in point of interest rates so as to enable those money-lenders to loan their money profitably?

The governor of the bank, in dealing with his whole report, talked about the money market, and talked, I would say, with a great deal of tenderness and a good deal of appreciation of the needs of money-lenders. He said he would prefer, if I recall it, to have them lend the money rather than have the money come from certain other sources. That would give an indication that he was conscious of their particular needs and might be running the economy in their particular interest?—A. I can answer that very easily. I could almost get you to answer it yourself, because you do not believe it yourself, that I am trying to run the economy of the country in the interest of money-lenders. You do not believe that?

Q. No, no, I do not, but I am only—A. So the answer to 1-D is that I do not understand that phrase "need for more money" as having any such meaning as is implied in the question. I do not know what is meant by "money-lenders". Anything I have said about the operations of the money market has been based, not on the needs of persons who are in the business

of lending money, but on the valuable services they can perform. In my opinion, it is a useful function to have intermediaries who are able to assist in the steps by which people who save money are able to make it available in the end to people who need that money to carry on useful capital development. Since it is difficult for the individual saver to know just where to find the person with a worth-while project of that character, most individual savers entrust their money to banks, to trust companies, to loan companies, to insurance companies, to investment dealers and advisors and trustees, and so on, and those are the people who act as intermediaries. Although they have some money of their own invested in their particular enterprise, by far the greater part of their business is to receive money from others and see that it is put to a useful purpose in the hands of still another group of persons.

Mr. CARRICK: I notice that that question 1-D which has been put, is based upon question 1, which says:

What is the actual meaning of the expression "The country needs more money" as that expression would normally be used by the Governor of the Bank of Canada.

In order to bring this question down to earth, should we not first know from Mr. Coyne whether he has made the statement that the country needs more money? If he has made that statement, then we can know what he means by that. If he has not made it, should we go on to deal with hypothetical questions based on statements which Mr. Coyne has not made?

The WITNESS: In my opening statement and perhaps in answering questions since then, I tried to explain the operations of the Bank of Canada and how the bank would at times exert its influence to expand money and credit and at other times might have to exert itself to restrain the supply of money or credit or restrain the rate of increase of money or credit. I may have used some general non-technical expression that if the country seemed to need more money our influence would be in a certain direction.

By Mr. Carrick:

Q. But you did not say there was need for more money now?—A. No, no. I said that under the conditions we have had in the last six to nine months it seemed appropriate to restrain the rate of increase in the money supply.

Mr. CARRICK: May I point out that question 1-D is completely misleading, because it assumes there is a need for money. It says:

"Does the real meaning of "need for more money"—It is completely misleading in that it assumes that there is a need for money now.

The CHAIRMAN: It is only fair, Mr. Blackmore, for me to make the comment that a lot of these questions seem to be, perhaps not intentionally, loaded, in that they are asking something that is based on a premise that may not be true at all.

Mr. BLACKMORE: In that case, may it not be the privilege of the Governor of the Bank of Canada to straighten me out in these matters?

The CHAIRMAN: I think that is what he is trying to do.

Mr. PHILPOTT: I do not think it is the function of this committee to take up time entering into a long and highly involved question to try to answer all the points raised by Mr. Blackmore in his nine-page brief. It seems to me that this particular type of argument he is trying to raise is exactly the same type of argument which was presented very competently by his own colleague, the Attorney General of Alberta, who appeared before the Banking and Commerce Committee two years ago on the occasion of the renewing of the charters of the banks and gave an official brief for the Social Credit organization at

that time. It seems to me quite out of order, and the only way possible to get an answer to the questions presented by Mr. Blackmore would be for someone to undertake to read a brief in answer to his, point by point. It having been presented in manuscript form it never could be answered in the proper way, because it is all based on an hypothesis in the first line which is the hypothesis of Mr. Blackmore and has nothing to do with the committee.

Mr. BLACKMORE: I submit that Mr. Philpott is not fair, because this is not a brief. I prepared these questions, as I said at the beginning, so that hon. members might be able to have the questions before them, reading them and understanding exactly what is there. To say I was writing a brief is, I think, not quite worthy of the hon. member, Mr. Philpott. Naturally these questions probe for information, and very valuable information, and they are all related. There is nothing of the kind he mentioned, the writing of a brief.

Mr. HOLLINGWORTH: My objection to that question is that it implies the governor of the bank used the words "we need more money." I would ask Mr. Blackmore if those are not his own words? Has he any quotation? Is he saying the Governor of the Bank of Canada said the other day that we need more money?

Mr. BLACKMORE: He used the words in just the way he said here in his talk.

Mr. HOLLINGWORTH: I submit those words are, unintentionally, misleading.

Mr. BLACKMORE: He said "we had to determine, as the Bank of Canada, when the country needs more money". Surely the expression "needs more money" is vitally important.

The CHAIRMAN: I do not mean to interrupt, but I would point out that in question 2 Mr. Blackmore says:

Bearing in mind the two aforementioned evidences of needs of business to have in circulation more money...

I do not think you have proven at this point that there are evidences of needs of business to have in circulation more money. What Mr. Coyne says is that he was trying to stop, or rather retard, the rather rapid expansion. I think you are basing the question on things which have nothing to do with the evidence of Mr. Coyne.

Mr. BLACKMORE: I submit, in all deference, that Mr. Coyne did say things which would justify this question. I will not put words in his mouth and, speaking entirely from memory, did he not express approval in a general way, at least by implication, of the fact that there had been so much borrowing, in the case of something like \$2½ billion borrowed by people to consume things, to buy cars and other things?

The WITNESS: No, sir. I said I would not wish to say anything adverse to the use of consumer credit in general but that, like anything else, it could at times go to extremes. That is what I said.

The CHAIRMAN: It is one o'clock now and, as chairman, I have to rule that at our next meeting unless you have a colleague attend and ask your questions, if you are not here, Mr. Blackmore, we are not going to put them.

Mr. BLACKMORE: I am not asking you to put them. I appreciate very much the attitude of the committee. I aim simply at the truth.



Canada Banking and Commerce
Standing Cmtee on 1956
HOUSE OF COMMONS

Third Session—Twenty-second Parliament
1956

STANDING COMMITTEE
ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 12

The Report of the Bank of Canada for the year ended
December 31, 1956
Including Eighth Report to the House

TUESDAY, JUNE 12, 1956

WITNESS:

Mr. J. E. Coyne, Governor, Bank of Canada

STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

| | | |
|-----------------------------------|-------------------------------|---------------------------------|
| Argue | Hanna | Quelch |
| Ashbourne | Henderson | Regier |
| Bell | Hollingworth | Richardson |
| Benidickson | Huffman | Robichaud |
| Blackmore | Low | Rouleau |
| Cameron (<i>Nanaimo</i>) | Lusby | St. Laurent (<i>Temis-</i> |
| Carrick | Macdonnell (<i>Green-</i> | <i>couata</i>) |
| Crestohl | <i>wood</i>) | Stewart (<i>Winnipeg</i> |
| Deslieres | MacEachen | <i>North</i>) |
| Enfield | Macnaughton | Thatcher |
| Eudes | Matheson | Tucker |
| Fairey | Michener | Valois |
| Fleming | Mitchell (<i>London</i>) | Viau |
| Follwell | Monteith | Vincent |
| Fraser (<i>Peterborough</i>) | Nickle | Weaver |
| Fraser (<i>St. John's East</i>) | Pallett | White (<i>Waterloo South</i>) |
| Fulton | Philpott | |
| Gour (<i>Russell</i>) | Power (<i>Quebec South</i>) | |

Eric H. Jones,
Clerk of the Committee.

CORRECTIONS

Minutes of Proceedings and Evidence No. 9—May 15, 1956

Page 349, line 6: The word "item" should read "time".

Page 349, line 17: Insert after the words "the general public" the word "or".

Page 357, line 21: The word "factor" should read "feature".

Page 363, line 16: The word "deduction" should read "reduction".

Minutes of Proceedings and Evidence No. 10—May 22, 1956

Page 381, line 23: Insert the word "After" before the words "the government".

Page 383, line 38: The word "persuasive" should read "pervasive".

Page 385, line 34: The word "affect" should read "offset".

REPORT OF THE HOUSE

WEDNESDAY, June 13, 1956

The Standing Committee on Banking and Commerce begs leave to present the following as its

EIGHTH REPORT

On May 4, 1956, the House referred to the Committee the report of the Bank of Canada for the year ended December 31, 1955, tabled Thursday, March 1, 1956.

Your Committee held four sittings on that reference, during which it heard Mr. J. E. Coyne, Governor, Bank of Canada. During its deliberations your Committee heard a statement from Mr. Coyne on the said report and elicited information from Mr. Coyne on the following matters, namely:

- (a) Recent changes in the Bank Rate.
- (b) Various aspects of the operation and effects of monetary policy.
- (c) The principles, techniques and practices of central banking.

Your Committee records its appreciation of the assistance and information which it has received from Mr. Coyne during its deliberations.

A copy of the Minutes of Proceedings and Evidence of the Committee relating to the said report of the Bank of Canada is appended hereto.

John W. G. Hunter,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, June 12, 1956.

The Standing Committee on Banking and Commerce met at 11:15 a.m. this day. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Ashbourne, Benidickson, Cameron (*Nanaimo*), Carrick, Deslieres, Fleming, Fraser (*St. John's East*), Gour (*Russell*), Huffman, Hunter, Macnaughton, Michener, Monteith, Pallett, Philpott, Quelch, Richardson, Viau, White (*Waterloo South*).

In attendance: Mr. J. E. Coyne, Governor, and Mr. R. W. Lawson, Deputy Chief, Research Department, both of the Bank of Canada.

(*Note:* The Committee, in accordance with its Orders of The Day, first dealt with a Private Bill, in respect of which verbatim evidence was not recorded).

At 11:50 o'clock a.m. the Committee resumed its consideration of the Annual Report of the Bank of Canada for the year ended December 31, 1955.

Mr. Coyne was further questioned on the operations of the Bank of Canada.

The examination of the witness having been concluded, he was thanked and permitted to withdraw.

The Committee, *in camera*, considered a draft "Report to the House". The said draft Report was adopted without amendment.

On motion of Mr. Philpott, seconded by Mr. Macnaughton, the Chairman was instructed to present the said Report to the House.

Agreed: That the Committee's next order of business be the consideration of Bill No. 51, An Act to amend the Small Loans Act; and that the Committee meet again on June 19th, if possible, to consider the above-mentioned Bill.

At 12:45 o'clock p.m. the Committee adjourned until 11:00 o'clock a.m. Tuesday, June 19, 1956.

E. W. Innes,

Acting Clerk of the Committee.

EVIDENCE

JUNE 12, 1956.

11.00 A.M.

The CHAIRMAN: We are back to the consideration of the report of the Bank of Canada for the year ending December 31, 1955.

As far as I am concerned this meeting should complete the examination of this report, unless you have many more questions than I anticipate. In order that we have some regularity in the questioning perhaps you would be kind enough to let me know.

Mr. MICHENER: Mr. Chairman, I would like to ask Mr. Coyne a few questions about the relationship of the present interest rate policy with the supply of funds for housing and the government's housing program. I am not sure how much of this may have been covered, but I hope Mr. Coyne will indicate if I am covering ground that is already covered, because I have not been here during the entire proceedings.

The first question is a general one. What has been the effect of allowing the chartered banks to lend funds on government guaranteed housing mortgages with respect to the other business of the banks? What is their capacity to do the business they did exclusively before this new power was given to them?

Mr. J. E. Coyne, Governor, Bank of Canada, called:

The WITNESS: I do not know if anyone can say what the effect would be, or may have been, on their other business any more than you can say what the effect of one part of that other business is on any other part of that other business.

By Mr. Michener:

Q. Do you have a record of the volume and the amount of money that has been lent by the chartered banks under the amendment to the Central Mortgage and Housing Corporation Act of last year?—A. Yes, the amount outstanding as of the end of April in respect of insured mortgage loans made by the chartered banks was \$361 million.

Q. Would it be fair to say that that \$361 million, except for the change in the act, would have been available for the short-term credit business that the banks do otherwise?—A. No, I do not think you can say that. I do not see how you can arrive at any conclusion on that matter. The banks have various opportunities to make loans and invest their depositors' money. They have a growing volume of savings deposits, at any rate from year to year. Their total volume of deposits is subject to influence by central bank action, among other factors, and it may rise or it may fall. I myself would not think you could say that any one aspect of investment by the banks comes out of money that would otherwise be available for some other field.

Q. But it strikes me that this is entirely new business as far as the chartered banks are concerned. They have not lent this type of money before,

and here we have \$361 million tied up in term loans of a number of years. I would think that, other things being equal, the amount of money available for the ordinary commercial credit business of the banks would be reduced by that amount.—A. I do not think you can follow that through. If they had not had this particular field of lending to do, maybe they would not have had as much money at their disposal to make loans with.

Q. In other words their capacity to lend may be larger by reason of their doing this business?—A. It might be.

Q. Can you explain how that might be?—A. No, I could not follow it through for you from point to point. But, I find that in this field it is very difficult to say what would have happened, other things being equal, because if one thing changed, I do not think you can assume that other things would be equal.

Q. Can you tell me the proportion of the banks available funds which this \$361 million represents?—A. Yes.

Q. The proportion of their loans as at that time?—A. In the first place it is about 3 per cent of their total assets.

Q. Yes. Now, on that same aspect of money lending, have the banks developed any means of passing on these guaranteed mortgage loans to other holders?—A. To a limited extent, yes. They have in fact sold some of these insured mortgages to other holders. A good example of that would be the pension funds with money to invest. This is a feature that was made possible by an amendment to the National Housing Act in 1954. It brought in these insured mortgages and made it possible for banks to lend money in that way. It was also provided that as long as the bank, or whoever was the approved lender, continued to service the mortgage, collect the installments and so on, the ownership of the mortgage could be passed on to anybody, whether he himself were an approved lender in the first place or not. I think there is room for a great deal more development along that line, and I hope to see it come about before too long. I think progress is being made from time to time.

Q. One other question on a little different aspect of this same matter. Has the restrictive policy of the Bank of Canada that has developed through the rising interest rates in the last year had any appreciable effect on operations under the housing act, and has it had a restrictive effect on the operations under the housing act. I think that I might bring to your attention a complaint which I have received by telegram. I will read this to you before you answer the question, and you might deal with them both together. This telegram is from the Toronto Metropolitan Home Builders' Association. It bears yesterday's date and is addressed to me. I daresay it was sent to other members as well.

The CHAIRMAN: I can assure you it was.

Mr. MICHENER: It reads:

Desperate situation confronting house building industry through lack of mortgage funds. Tight money policy strangling National Housing Act and throwing builders into idleness. House building is biggest Canadian industry and forced inactivity constitute a major threat to overall prosperity. Affects thousands in related industries supplying materials, equipment and furnishings as well as on site labour. Demand for houses still strong and reduction of supply will force prices still higher. Immediate government action urgently needed to end apparent cross purpose policies of Bank of Canada and Central Mortgage and Housing Corporation.

It is that last part that I would appreciate Mr. Coyne dealing with.

The WITNESS: You started your question, Mr. Michener, by asking whether the restrictive action by the Bank of Canada in raising the interest rates had had a restrictive effect on money available for housing. Although I have said this before, I think I should say it again; I would not understand by the word "restrictive", the kind of policy which the Bank of Canada has followed up to date. There has not been a restriction of credit in the sense of reducing the total amount of credit, or of money for that matter, available. It has gone on increasing. There has not been action initiated by the Bank of Canada to raise interest rates beyond what they otherwise would have been. What has happened, as I see it, is a very rapid increase in the latter part of last year and the early part of this year, in the demand for credit. That demand has been met in part, but was not met fully at the existing level of interest rates. The pressure of that demand and the competition amongst borrowers and would-be borrowers has caused interest rates to rise. The Bank of Canada, it is true, could have prevented that rise in interest rates by creating an unlimited quantity of money, or all that was demanded at a fixed level of interest rates. But, without going into that argument, I will assume for the moment that nobody thinks we should have done that. We did in fact allow some increase in the supply of money by allowing some over-all increase in bank assets. We raised our own interest rate, that is the bank rate, because otherwise it would have been the cheapest interest rate on the market, and everybody wanting money would have been coming through the appropriate machinery to the Bank of Canada for additional supplies of money at that cheapest fixed interest rate. That would have frustrated the general policy we were pursuing in providing some increase, but only a limited increase at any given level of interest rate. So, as other interest rates rose, as this demand for money continued to grow, we raised our interest rates from time to time also.

By Mr. Michener:

Q. Was that the sequence? Was it not rather the other way around?
—A. No, sir, that was the sequence. It may well be true,—and it is usually though not necessarily true—that a rise in the bank rate is followed by some still further movement of market rates in the same direction as the rise in the bank rate. It does not always happen. There can be differences of opinion as to the timing of rises in the bank rate, as to how far it should be permitted to get out of line with treasury bill rates, or some other short-term interest rate on the market. I would not want to say there was a fixed relationship, or that there should be a fixed relationship, but certainly the public would conclude from the act of the central bank in raising the bank rate that the central bank must have formed the opinion that the demand for money was greater than could prudently be provided in full, confirming, in a sense, the movement of interest rates in the market.

Now, if at a time when not only is there a rapid physical growth going on, as fast as the country can accommodate, there is still further growth in the demand for money, excessive growth, competition for that money will not only cause a rise in the interest rates, but will also mean that some would-be borrowers do not get all they want. This can also happen at a time when there is not any over-all surplus of demand, but simply a change in the situation and a change in the views of lenders as to the fields of investment in which they feel it best to make money available in large quantities. You

might have very easily, therefore, a change in the supply of money available for housing, just as you most certainly do have changes from time to time in the demands for money for housing. I do not think that you can attribute a change in the supply of money in any one industry whether it be housing, textile production, newsprint, or anything else you can think of, to any specific overall action of the central bank.

Q. I am concerned about housing alone in this question and it seems to me that the banks as one source of money for housing building under the Housing Act has definitely reversed their policies in the last while, and what I am trying to discover is whether there is any relationship between that action and action taken by the central bank?—A. If we made unlimited quantities of money available, then the banks would have great difficulty in providing sufficient outlets for it, and we would have inflation in this country.

Q. If the bank discount rate had not been raised the last half per cent?—A. Yes.

Q. You would expect the banks to be drawing more on the central bank and to have more money available for all their purposes including guaranteed building loans?—A. That is right. If we had kept the bank rate down instead of making the last quarter per cent move in April, then you would have to provide sufficient increases for the cash reserves of the banking system, more money, so that all interest rates would be lower than they are now.

Q. But you raised the rate for some other purpose?—A. We raised the rate because we followed the policy of exercising some limit on the increase in the money supply.

Q. The indirect effect of that, or the undesirable effect of that, was to restrict to some extent or to limit to some extent the amount of money available for housing loans?—A. I do not know if it had that effect or not; but it is a fact that in respect of the chartered banks' activities in the field of mortgage lending, some of them quite clearly decided that they are going to lend less money this year than they did last year, but that is not true of all of them.

Q. No; it varies with some of them.—A. I can think of at least one bank which is lending more money this year than it lent last year. Some of them are continuing to lend to private home owners, to people who want to build a new house, but they are rather less anxious to make loans to builders for large speculative projects, for unsold houses. If a builder has a project for which he has a buyer in advance, that no doubt qualifies him for an owner loan, and he would be able to get finances from the banks. And it may well turn out to be the case that the banks as a whole will make a smaller quantity in loans this year than last year. I do not know what the position will be when the year is over.

As far as the total mortgage market is concerned, the amount of money being put up is still running at a fair rate, influenced by various things, including the interest rates available on other kinds of loans. The banks are of course only one element in the total supply of mortgage money. The life insurance companies, if anything, are lending more money this year than last year for mortgages of all kinds.

Q. On account of the higher rate?—A. I do not know why, but they are active lenders on housing mortgages this year. Each year the life insurance companies have more money at their disposal to lend; and outside the field of the National Housing Act there may well be a revival of interest on the part of these and other lenders in the field of conventional mortgages.

Q. So that looking at the broad field of credit available for housing, it is your conclusion that the policy followed by the Bank of Canada is not likely to curtail the amount of house building?—A. No, I cannot say that. I do not know what, in fact, will happen, what will be the exact division among the borrowers, among all industry, of funds that are available from all sources in the course of the year. I do not think that the policy of the central bank should be directed towards any particular allocation of financial resources. I think that it is the obligation of the central bank to confine its activities to the over-all situation.

Q. So if a curtailment of housing were the necessary consequence of the policy followed by the bank, your position would be that the bank policy has to be concerned with the development of the whole economic situation?—A. If curtailment of house building came about from any cause whatever it would be a matter of concern to the building industry and perhaps to other authorities; but it would not be something affecting the central bank, or over which it could exercise any direct influence.

Q. According to the minister's statement in the house it is anticipated that housing and construction will proceed at the very high rate which was obtained last year; but this communication from people in the business would indicate that it is not taking place, and that the lack of credit for that kind of building is the problem.—A. That may be the case.

By Mr. Quelch:

Q. Before hearing that question, and with respect to the discussion we had on the agreement between the Bank of Canada and the chartered banks to limit term loans, has this agreement had a tendency to curtail loans for buildings?—A. No, I do not think so. If I could agree that making more money available in one area necessarily makes less in another—to which I do not agree—then I would say that the restriction on term loans to industry would make more money available for housing and for other purposes, but I would not want to make that connection.

Q. The policy of the Bank of Canada will influence foreign investments, will it not, to some degree? I was wondering; what you consider to be the desirable level of foreign investments in Canada? What yardstick do you use in considering whether foreign investment should be increased or decreased. You must have some yardstick you can judge it by.—A. Not directly; we do not say that increasing or decreasing foreign investments is our business. If we find that the demand for money in Canada is greater than the savings that the Canadian community can provide, then interest rates will undoubtedly rise in Canada and that will tend to attract foreign money, and to encourage Canadians to go abroad to borrow money, and it will tend to encourage foreigners to take the initiative in looking for investments in Canada, or increasing investments which they already have here. But I do not think that the central bank considers it within its sphere of operations to encourage or discourage foreign investment as such. What we want to encourage under our statute is the maintenance of the health of the overall economy, the maximum rate of economic growth that can be sustained without inflation or periods of recession. That is the direction in which we are working now, and we do everything we can to bring it about.

Q. On the other hand, you can and you do influence the interest rate; and if the interest rate rises there is a tendency to have more foreign investment in Canada?—A. We could prevent a rise in interest rates by increasing

the supply of money in Canada and this could lead us into domestic inflation in Canada, a rise in imports, a falling off in exports, and a depreciation of the Canadian dollar. These things might encourage or discourage foreign investments; I do not know just how it would work out.

Q. Having that point in mind, when the interest rate rises and there is an increase in foreign investments, the premium on the Canadian dollar goes up, it makes it much harder for an exporter to compete with other countries.—A. The fact that there is a very strong demand for goods as well as money in Canada means that you have rising imports. You also have rising interest rates and an inflow of money from abroad, and the money flowing in is used to pay for these rising imports. This is what has been happening. The movement in the interest rate has been gradual, and I do not know whether it will continue or not.

Q. Foreign investments in Canada to a large extent are a counterpart of your imbalance of trade, is it not true?—A. Yes.

Q. We hear a lot about it. —A. It is not true in all countries, however. Some countries have an imbalance of trade which is not matched by foreign investment, and they have to use their own reserves or other foreign assets in order to continue to pay for those imports.

Q. We hear a lot of talk about non-residential control in Canada and in the Canadian international investment position. In 1954 non-residential control of industry was—in manufacturing, 47 per cent; in mining 75 per cent; and so on. Does that not give you some concern?—A. It does not offer any field in which I can take monetary action to have any influence on that situation.

Q. In regard to agriculture it has been often said that we have an agricultural depression in the midst of an industrial boom which I think to a certain extent is true, at least in regard to the wheat farmer. We have in recent years lost agricultural markets in Europe and at the present time we are largely using our favourable balance of trade in Europe for the purpose of financing our deficit with the United States; that has made it much harder to sell agricultural products in Europe. Instead of making dollars available to Europe with which to buy agricultural goods, we have used those dollars to pay our deficits with the United States.—A. I do not think the supply of dollars in European hands has been any impediment to their buying agricultural goods from Canada, at any rate in recent years. I say that on two grounds: first, they are buying agricultural goods from Canada in considerable volume, and secondly, their supply of dollars has been rising for several years with one or two exceptions.

Q. Mr. Towers always said that; but on the other hand, we are continually having British officials come over here and say that if Canada would buy more from Britain, then Britain would buy more from us.

Mr. James S. Duncan, president of Massey-Harris-Ferguson Limited, and chairman of the Dollar-Sterling Trade Council had this to say:

Basically the reason our exports to the United Kingdom have not grown is that Britain's ability to purchase from us has been limited by her dollar shortage. Since the end of the war, Britain has been unable to earn a sufficient amount of dollars, directly or indirectly, to pay for

imports from dollar countries up to the limit of her domestic demand. Therefore she has applied various import prohibitions quotas and other restrictions on dollar imports in order to maintain external solvency. While many of these restrictions, especially on primary products, have been removed as the sterling dollar situation has improved, we are very far, even ten years after the war, from having free access to the British market or other sterling markets.

It is important to recognize that British restrictions on imports from Canada have arisen from the limitations on Britain's dollar resources and not from any desire to discriminate against Canadian goods.

And he points out that there are many British goods which we need in this country that we could purchase from Britain.—A. I am very surprised that Canadian businessmen and consumers are not purchasing these goods, if they are available at reasonable prices, and I am surprised that the British producers of those goods are not pushing their sales actively in Canada. I think you will find that in general there has been full employment in all of western Europe for years, and in fact that they have had a certain amount of inflation in most of those countries. Their domestic consumption has gone up a great deal and their exports have tended to go to soft currency countries who were also suffering from domestic inflation and were willing to pay almost any price for goods from Europe. To a very large extent it is because of these conditions that European exports to North America, and particularly to Canada, have not grown as people would like to see them grow.

There is a difference between the sale of goods in Canada and the sale of goods in the United States. To get into the United States they have to surmount the American tariffs which makes it very difficult for them to compete with American goods in the United States. In connection with Canada it is true they encounter the Canadian tariff and to that extent they are handicapped in selling their goods in competition with Canadian goods, but they are not handicapped in competing with United States businessmen in selling their goods in Canada. In spite of this fact the sale of American goods in Canada has grown much faster than the sale of British and European goods in Canada,

By Mr. Cameron (Nanaimo):

Q. That would be accounted for by the fact that a great many of our distributing firms in Canada are connected with American firms.—A. That could account for it, and there is also a psychological reason in that people get used to a certain type of goods, and that means there is a selling job to be done before they will try something different.

By Mr. Quelch:

Q. We used to look upon our tourist trade as a source of dollars, but today it seems to be working the other way and we are losing dollars on it; in other words, Canadians who go to the United States spend more money on goods there than do the Americans who come to Canada. The Americans tend to spend more money on hotels and food. Is not the reason that our price level is higher than that of the United States?—A. I think the main reason for it is that they are more of a develop country, a manufacturing country, while we are more of a primary industry country, including secondary industries which are only one stage removed from primary, such as the production of pulp and paper, the production of metals but not the fabrication of those metals, and so on. Thus Canadians buy many manufactured goods from abroad, either when travelling abroad or when staying at home in Canada.

Q. I have been told by people who sell to the tourist trade that up until quite recently we had a good sale for English china and woollens to Americans, but that is no longer true because today Americans are able to buy British china and woollens in the United States cheaper than they can buy them here.—A. I have not heard that. It used to be the other way around because in the United States they had to pay the American tariff but if they came to Canada, the tourist could take back a certain amount of goods without having to pay the American tariff, and the fact that the Canadian tariff was lower than the American tariff.

Q. If we could cut down on the sales tax, would it not help?—A. If we could find a way in which goods could come in from abroad and then be re-exported and would not have to pay the sales tax, that would help, such as having goods from abroad go into a customs warehouse in bond to be sent out again.

Mr. CAMERON (*Nanaimo*): They do that in Britain I believe. If you purchase goods in British which are to be shipped abroad, you do not have to pay the purchase tax if they are to be taken out of the country.

The WITNESS: But in the case of our own products, the sales tax applies at an earlier stage.

The CHAIRMAN: Are you through, Mr. Quelch?

Mr. QUELCH: Yes.

By Mr. Monteith:

Q. Mr. Coyne said that if they had allowed all the money that was desired, we would have roaring inflation. Could I ask him this question: who makes the decision as to how much money is allowed? Is it you or the board, or is it done by consultation with the Department of Finance, or how is the decision made as to when there is sufficient?—A. As I explained in earlier sessions of this committee in every operation where we undertake to buy and sell bonds or treasury bills in the market we have an influence one way or the other on the money supply. We have to be governed by many considerations from day to day as to how we operate. You cannot arrive at some abstract formula or mathematical formula to suggest how much money there should be in any given situation with any particular definition of money. We have to take into account the general state of the economy, whether there is unemployment or relatively full employment, or whether things seem to be expanding or contracting, and what is happening in the foreign exchange market in so far as that is a symptom of the general state of the economy. We also have to take very much into account the supply and demand for credit as we see it reflected in the market in the operations which take place in all fields of finance, and the movements of interest rates. At some point when demand for money is growing under conditions of already full employment, people will find that they cannot borrow money elsewhere at existing rates of interest and those who have access to the central bank will see if they can borrow it from us. If they come to us for money it means that they are coming to us as a place of last resort and cannot get it elsewhere, but they can get it elsewhere if there is a rise in interest rates. An increase in the supply of bank cash, cash reserves in the chartered banks, may or may not be necessary in order that the availability of money may be increased because there may be

large quantities of deposits in a very inactive condition which would be rendered active if the owners of those deposits can be induced to lend them, as they will be if interest rates rise. The kind of decisions which we have to make vary with the circumstances, and they really have to be taken every day although the attitudes which we have do not vary quite as frequently as that. These matters do come up for discussion at our board meetings, but our board only meets four or five times a year and would not normally expect to be in a position to deal with the intricacies of daily operations of monetary policy. Under the statute the governor is the man who really has to accept full responsibility. He is described as the chief executive officer, and is responsible for the management of the bank except in so far as matters are reserved to the board of directors. I have of course very highly qualified assistance without whom I could not operate.

Q. I was wondering if there was continuous or periodic consultation with the Department of Finance in some of these decisions at which you arrive?—

A. Yes, consultation and discussion, certainly. The Deputy Minister of Finance is a member of the board of directors and a member of the executive committee which meets once a week although he does not have a vote. That provision was put in the statute to emphasize that the responsibility is on the bank itself for what it does within its proper sphere of operations. Both in our own technical sphere and in considering all manner of economic questions, the officers of the bank are in close touch with the officers of the Department of Finance at very frequent intervals. We try to keep ourselves as fully informed as we can. No amount of consultation, discussion, and exchange of views, alters the fact that the bank is responsible for what it does in the fields where the statute says it is responsible.

Q. I can appreciate that but did you consult with the Department of Finance before this recent increase of half a per cent in the discount rate?—

A. I am not quite sure that consultation is the right word, but if it is I did consult with the Department of Finance on all occasions when the bank rate was to be changed. Occasions may arise when there may not be time, when immediate action has to be taken, and when easy consultation with the Department of Finance would mean consultation with the deputy minister or somebody else in the department other than the minister of finance.

Q. You mentioned a moment ago about investments. The statistics suggest that if the percentage of cash reserves is greater, then there is less money to loan. Is that correct?—A. Any individual bank making a loan knows that it is going to lose cash when that loan is spent by the borrower.

Q. Would you say that again?—A. Any individual bank considering whether to make a loan knows that it is going to lose cash. It knows that it is going to lose cash. It knows that it is going to have cash withdrawn from it when that money is spent because the borrower will spend it in various places. A few of the people who receive the money may bank with the lending bank but the majority will bank with other banks and that will cause the deposits of the lending bank to decline. As far as any individual bank is concerned, its lending power is determined by the state of its cash at any given moment. But, within its total, it can reduce one loan and increase another. It can sell government bonds and make a loan or it can sell some other investment which it has and make a loan.

Q. As I understand it, the statute had called for a rate of 5 per cent reserve.—A. Before 1954, yes.

Q. And it was raised to 8 at that time?—A. Yes.

Q. In actual practice it was usual for the banks to have around 10 per cent?—A. They had to have by statute 5 per cent every day—not to go below it.

That 5 per cent was frozen and could never be used. In practice they kept a further 5 per cent which was available and in the average it worked out at 10 per cent over-all. The change in the act was to say that there will not be an absolute minimum any more but instead an average minimum which will be 8 per cent. That 8 per cent applies to the average of all the banking days in the month and a bank could, theoretically, allow its cash to go to zero for a few days in a month but in practice it would never do that. I do not think that any bank has gone below 6 per cent. For all the days of the month the average must be not less than 8 per cent.

By Mr. Quelch:

Q. That made it possible for them to expand their loans?—A. Yes. They found they had more cash under the old system than was needed under the new system and they chose to invest it. Different banks operated differently.

Q. Was that largely the basis for the financing under the National Housing Act?—A. I would not say that. It played its part in the total expansion of bank loans and investments of all kinds that went on from July of 1954 to June of 1955 or a little later.

Q. At that time I think Mr. Atkinson suggested that it might be impossible for banks to loan very much on housing; but apparently they did not have any great difficulty.—A. It came at a time when other opportunities for loans were not very great. There was a very great demand for housing loans and apparently they found it possible to go in for them on quite a large scale.

By Mr. Monteith:

Q. Since 1954 that average of 10 per cent has been more or less an adopted figure? Following the 1954 revision of the Bank Act that 10 per cent average has been the average?—A. No, 8 per cent.

Q. 8 per cent was required.—A. After the change in the act, over a period of about 12 months banks brought their cash reserve ratio down to close to 8 per cent from the previous level of 10 per cent or more. Some banks got there very quickly and others took a longer time to reach it.

Q. As of last autumn, was there another change in the rate—not according to the act but according to practice?—A. No. This was something which we went into at some length earlier.

Q. I am sorry. I will check on the previous evidence.

By Mr. Michener:

Q. Looking at page 14 of the report, I suppose the item which represents the housing loans is construction \$278 million?—A. No. Those are bank loans to contractors which are going on right now in the ordinary way.

Q. Where do the ones for housing appear?—A. They do not appear there in that table at all but on another table, Mr. Michener, on page 6 where all kinds of bank assets are set forth. You will find that all insured mortgages at the end of 1954 amounted to \$74 million, and it shows the increase every quarter until there was \$294 million outstanding at the end of 1955. As I said earlier, there was \$361 million outstanding at the end of April of 1956.

Q. Does the Bank of Canada exercise any supervision over the chartered banks with respect to the proportion of the funds they have in the different categories?—A. No.

Q. Or even make suggestions from time to time?—A. No.

Q. It is a matter of their own concern?—A. With the exception of the matter of term loans in large amounts which was dealt with in my annual report.

By Mr. Pallett:

Q. It has come to my attention recently that the municipal corporations have been able to find a more satisfactory market for their bonds in the United States than here at a lower rate of interest. Is there any explanation for that?—A. Yes. It is that in Canada they are part of an environment in which a great many people want to borrow money and interest rates here are higher than in the United States. In the latter part of 1955 and the early part of 1956 more and more Canadian debtors were seeing whether they could borrow in the United States or in some other country and there has been some of that done by municipalities. It is a question of the interest rate really. They have to decide whether the advantage in the interest rate outweighs the risk they take in taking on United States dollar obligations instead of Canadian dollar obligations.

Q. At the present time with the deficit trade balance, is there any risk that the gamble that they take may be fairly high?—A. There is always a risk. I do not think that I had better say anything more than that.

By Mr. Michener:

Q. This is quite unrelated. I notice the exchange rate dropped yesterday. It dropped $\frac{5}{16}$. At the same time the short-term movement in the exchange rate, like that one, is quite substantial. To what would you attribute that?—A. First of all, that degree of movement which you mentioned was spread over a period of some days. It is the inter-play of all the figures of supply and demand in a very large market. There is all the money coming in from exports and all the money being spent to pay for imports, and also, of course, very large capital movements. I think the rate has really been remarkably stable and that we have an effective market. There must be some very substantial capital movements, when you consider the adverse balance of trade with the United States and the demand for money on the part of Canadians, to put the Canadian dollar at a premium for the last few weeks. The capital movement in the last few months has been at least equal to or at times greater than the deficit in the trade balance. The deficit in the trade balance precedes a bit the demand for foreign funds because there may be a rise in imports in one month which may not have to be paid for for a few months.

Q. Our supply of gold and dollars has been depleted during the past year?—A. Not so much. It did go down last year while the Canadian dollar was depreciating and then there was the retirement of a Government of Canada U.S. pay issue in January of this year. But on the whole there has been very little fluctuation in our exchange reserves for the last three or four years.

Q. There has been an increase in the amount of gold held in the reserves?—A. No. I think the percentage held in gold is roughly the same as it has been for some time.

Q. I do not know whether anyone asked Mr. Coyne about gold?—A. There were some questions on that subject.

Q. I will not open it at this late date.

The CHAIRMAN: If there are no further questions we will now meet to consider our report.

I would like to thank Mr. Coyne very much for his courtesy in appearing here and clarity in the answers to the questions.

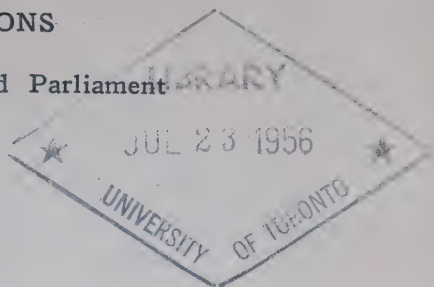
The committee proceeded to consider its report.

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Standing Cmtee on 1956

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956



STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 13

Bill 51

An Act to amend the Small Loan Act

THURSDAY, JUNE 28, 1956

WITNESS:

Mr. K. R. MacGregor, Superintendent of Insurance

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

| | | |
|-----------------------------------|-------------------------------|---------------------------------|
| Argue | Hanna | Quelch |
| Ashbourne | Henderson | Regier |
| Bell | Hollingworth | Richardson |
| Benidickson | Huffman | Robichaud |
| Blackmore | Low | Rouleau |
| Cameron (<i>Nanaimo</i>) | Lusby | St. Laurent (<i>Temis-</i> |
| Carrick | Macdonnell (<i>Green-</i> | <i>couata</i>) |
| Crestohl | <i>wood</i>) | Stewart (<i>Winnipeg</i> |
| Deslieries | MacEachen | <i>North</i>) |
| Enfield | Macnaughton | Thatcher |
| Eudes | Matheson | Tucker |
| Fairey | Michener | Valois |
| Fleming | Mitchell (<i>London</i>) | Viau |
| Follwell | Monteith | Vincent |
| Fraser (<i>Peterborough</i>) | Nickle | Weaver |
| Fraser (<i>St. John's East</i>) | Pallett | White (<i>Waterloo South</i>) |
| Fulton | Philpott | |
| Gour (<i>Russell</i>) | Power (<i>Quebec South</i>) | |

Eric H. Jones,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, June 28, 1956.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day, Mr. John W. G. Hunter, the Chairman, presiding.

Members present: Messrs. Ashbourne, Bell, Benidickson, Cameron (Nanaimo), Carrick, Crestohl, Deslieres, Fairey, Fleming, Fraser (St. John's East), Fulton, Hanna, Hollingworth, Huffman, Hunter, Low, Michener, Monteith, Pallett, Rouleau, Thatcher and Weaver.

In attendance: Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance; and representatives of certain Small Loan Companies and interested organizations.

The Committee reverted to Bill 51, An Act to amend the Small Loans Act.

Mr. MacGregor was called; he read a statement on the Small Loans Act, copies of which were distributed to the Committee, and answered questions thereon. He tabled nine statistical tables which the Committee agreed be printed as Appendices "A" to "I" to this day's Minutes of Proceedings and Evidence.

The Committee agreed that, following the hearing of Mr. MacGregor, it would next hear Mr. F. P. Varcoe, Deputy Minister of Justice, on the constitutional aspects of the legislation, and, thereafter, hear representations from and ask questions of officials of interested companies and organizations.

At 1.00 o'clock p.m., the Committee adjourned until 11.00 o'clock a.m. on Tuesday, July 3, 1956.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

Thursday,
JUNE 28, 1956
11 A.M.

The CHAIRMAN: Gentlemen, we have a quorum. We have under consideration today Bill 51, to amend the Small Loans Act. The first witness, proposed by the steering committee and approved by the committee, is Mr. K. R. MacGregor.

Mr. K. R. MacGregor, Superintendent of Insurance, called.

The CHAIRMAN: As you all know, Mr. MacGregor is Superintendent of Insurance and also has under his control the administration of the Small Loans Act and the loan companies registered under it.

The WITNESS: Mr. Chairman and hon. members: I thought that the best way I could assist the committee in studying the subject of small loans—at least at the outset—would be by giving a brief synopsis of the history of the Small Loans Act and of the experience under it since it was passed in 1939.

As a good many figures are involved I have therefore prepared some notes and some tables which the clerk has placed in your hands. If it is the wish of the committee I shall now proceed to outline the story.

Mr. FLEMING: Mr. Chairman, is it going to be feasible to put these tables on our record?

The CHAIRMAN: I think everything produced will go on the record. Gentlemen, I think we are going to have to adopt a different procedure here than we normally have. It is normal to allow a witness to complete his presentation and then to question him. But this is obviously going to be a very long presentation and I think it would be better for members to clear up any misunderstandings or doubts as we go along, provided that we stick to the question and not get off on a thousand byways. So if you have any questions to ask, you may ask them as we go along.

Mr. MICHENER: That will not prejudice our asking questions at the end, will it, Mr. Chairman?

The CHAIRMAN: No. That will not prejudice your asking questions at the end.

The WITNESS: The practice of money-lending on personal security is of such long standing that one might suppose that all problems and questions concerning it would have long since been settled. However, its social and economic aspects are so broad that complete settlement will probably never be reached. This practice, which had its origin centuries ago in simple and diverse ways, has now grown into a well-organized and well-established industry. But changing times bring changed conditions and the principal change recently has been the increasing number of borrowers seeking ever larger loans. At the same time, there has been an obvious reluctance on the part of lenders to reduce the scale of charges for the larger loans. The small loans business is, in fact, no longer small—it has become a multi-million dollar business with some lenders having branches spread across the country comparable in number with

the chartered banks and large chain stores. Experience has demonstrated that some persons must borrow sometimes, that other persons will borrow whether necessary or not, that other credit facilities have not been sufficiently broad to meet the borrowing desires of society, and that a regulated small loans industry is far preferable to unregulated lending on personal security.

It may not be necessary but it may nevertheless be of some value to review briefly the background of this particular kind of business in Canada before dealing with the present situation and the bill now before the committee.

In Canada, the earliest legislation relating to interest, usury and money-lending was the Act 17 Geo. III, 1777, Cap. III, being an Ordinance for ascertaining damages on protested Bills of Exchange and fixing the rate of interest in the province of Quebec. Section V of this act fixed the maximum rate at 6 per cent per annum for all contracts, the imposition of a higher rate resulting in voidance of the contract as well as other severe penalties.

A similar provision was included in an act passed in Upper Canada in 1811, 51 Geo. III, Cap. IX.

In 1853, both of the foregoing provisions were repealed by the Act 16 Vict. c. LXXX of the legislature of the former province of Canada. This act, although less severe in some respects, contained a provision that every contract shall be void so far, and so far only, as relates to any excess of interest thereby made payable above the rate of six pounds for the forbearance of one hundred pounds for a year, and the said rate of six per cent interest, or such lower rate of interest as may have been agreed upon, shall be allowed and recovered in all cases where it is the agreement of the parties that interest shall be paid.

A later act in 1858, 22 Vict. c. LXXXV, authorized the contracting parties to agree upon any rate of interest but fixed 6 per cent as the interest payable where no rate was stipulated by the parties or by the law. This was the origin of present sections 2 and 3 of the Interest Act.

By section 91 of the B.N.A. Act, the subject of interest was specifically allocated to the dominion. Several acts were consequently passed by parliament in 1873 (chapter 70, relating to interest in the provinces of Ontario and Quebec and chapter 71 relating to Nova Scotia), 1875 (chapter 18, relating to New Brunswick), 1880 (chapter 42, relating to interest on mortgages), and 1886 (chapter 44, relating to British Columbia), which, together with certain provisions of the acts of Prince Edward Island of 1869, were consolidated in chapter 127 of the Revised Statutes of 1886, an act respecting interest.

In 1897, a bill was introduced by Sir Oliver Mowat providing that where the rate of interest under any contract exceeded 8 per cent per annum the court should have discretion to declare the contract unenforceable. The bill was designed to prevent abuses such as a case cited where interest at 5 per cent per day had been provided for and judgment for recovery obtained. The bill was drastically revised in committee and emerged as chapter 8 of the statutes of 1897, which contains the originals of sections 4 and 5 of the present Interest Act, namely, a provision that only 5 per cent per annum can be recovered under a contract providing for interest at shorter intervals than yearly unless the contract expressly states the yearly equivalent of the periodical rate, and a provision for the recovery of any excess interest paid.

Up to this point, the legislation was not specifically framed for the protection of small borrowers on personal security and was inadequate for this purpose. Nevertheless it was known that unduly high rates were being charged on personal loans and the situation was generally unsatisfactory. At the session of parliament in 1899 Senator Dandurand introduced a bill entitled an act respecting usury, which fixed a limit of 20 per cent per annum on any

loan. In discussion in committee, the bill was amended to apply only to loans of \$500 or less. Its application was also limited to loans by a "money lender", who was defined as one

Who carries on the business of money lending or advertises or announces himself, or holds himself out in any way, as carrying on that business and makes a practice of lending money at a higher rate than ten per centum per annum, but does not include a pawn broker as such.

This definition may be regarded as the original of the definition of "money lender" in section 2 of the present Money-Lenders Act. This bill was not enacted in 1899 but was revived and passed, with certain amendments, as the Money-Lenders Act in 1906, the maximum of 20 per cent per annum being unfortunately replaced by the rather ambiguous and uncertain references to 12 per cent found in sections 6 and 7.

It might be interesting to observe here that the Money-Lenders Act in Great Britain came into existence in 1900 following intensive study in the immediately preceding years and the credit union movement on this continent also had its birth during this period. The first Caisse Populaire was founded by Alphonse Desjardins at Levis, Quebec, in 1900, partly because of the high interest rates then prevailing on small loans and partly because of the lack of facilities for obtaining them at any price. Mr. Desjardins was at one time a parliamentary reporter and his brother was for several years Deputy Minister of Public Works.

The Money-Lenders Act was conceived in good intentions but over the years proved to be quite ineffective. Its main defect lay in the fact that "interest" was not defined and could not be held to include ancillary expenses, especially in view of the conflicting references to 12 per cent for interest alone in section 6 and to 12 per cent for both interest and expenses in section 7. Other reasons for its ineffectiveness were that no licensing or supervision of money-lenders was required, no one was charged with the responsibility of enforcing its terms, and borrowers were reluctant to incur the publicity and expenses of taking remedial action themselves.

The result was that even though the Interest Act had been on the statute books in one form or another since before confederation and the Money-Lenders Act since 1906, the business of money-lending in Canada was for all practical purposes unregulated during the first quarter, or more, of the present century. Sporadic evidence of exorbitant charges began to appear more frequently and complaints multiplied. Much began to be heard of the "loan shark" in the daily press, magazines, moving pictures, etc. One or two dominion companies incorporated under the Companies Act were in the field but the great bulk of the business was carried on by provincially-incorporated companies, partnerships and individuals. Annual statements were not generally required to be published or filed; hence it was practically impossible to determine how many lenders were operating or the extent or nature of their operations.

Conditions in the personal loan field in the U.S.A. had likewise been unsatisfactory during the early part of this century but even before the first great war the Russell Sage Foundation had begun its work in an effort to find a solution to the problem of the necessitous borrower lacking the customary forms of security acceptable to banks, etc. The earliest attempts to solve the problem through loans made available by philanthropic agencies and the remedial loan societies proved inadequate and the conclusion was soon reached that the best solution would be by way of legislation specifically designed for this particular kind of business, legislation that would authorize adequate

charges to assure the necessary facilities yet be the fairest possible to borrowers. This conclusion led to the drafting of a model bill in 1916 that subsequently became known as the Uniform Small Loan Law, including the requirement that interest and charges should be expressed as an all-inclusive rate per month not exceeding a stipulated maximum percentage of the balance of the loan outstanding from time to time, provision for licensing and supervision of lenders by the state and for severe penalties for infractions of the law. This Uniform Law was enacted in substantially the same form, but with various maximum rates, by one state after another so that at the present time such laws are in force in nearly every state.

In Canada, it may be said that regulation began in a limited way in 1928 with the incorporation of the first so-called small loans company, the Central Finance Corporation (now the Household Finance Corporation of Canada), by a special act of parliament (chapter 77). This Act authorized the company to lend on personal security, subject to maximum charges as follows:

Interest—

- (i) Loans up to \$500, 6 per cent per annum in advance
- (ii) Loans over \$500, 7 per cent per annum in advance

Expenses—

- (i) Loans up to \$100, 1 per cent per annum in advance
- (ii) Loans of \$100 to \$300, 1½ per cent per annum in advance
- (iii) Loans over \$300, 2 per cent per annum in advance

Since all of these charges could be deducted in advance, the actual nominal annual rate was about double the apparent rate, being roughly 14 per cent for a loan of \$100 and 16 per cent for a loan of \$500. As there was no general act in force at that time providing for supervision of companies of this kind, the Central Finance Corporation was made subject to the Loan Companies Act, with certain exceptions, and the power to take money from the public either on deposit or by the sale of debentures was withheld.

By Mr. Fleming:

Q. I should like to ask Mr. MacGregor about the figures at the bottom of page 5, indicating that the expense allowance increased with the size of the loan. What was the theory back of the increase in the percentage with the size of the loan? Our ideas usually go the other way, do they not?—A. I think that is quite right. The principle generally recognized today is that the relative burden of charges should decrease as the size of the loan increases. The theory must have been that it took more time and trouble to investigate the larger loans, but I cannot be sure.

Within the year following incorporation, the company claimed that it could not operate on the scale of charges in its act and in 1929 sought and obtained amendments authorizing charges of 7 per cent and 2 per cent in advance for interest and expenses, respectively, on all loans plus, in the case of a loan secured by a chattel mortgage, "an additional sum equal to the legal and other actual expenses disbursed by the company in connection with such loan but not exceeding the sum of ten dollars". Obviously, the allowance of \$10 for chattel mortgages provided a very much larger percentage margin on the smaller loans and when the maximum permissible charges of all kinds were levied, the equivalent effective monthly rate varied from 5.71 per cent for a \$50 loan repayable in twelve equal monthly instalments to 1.84 per cent for a similar \$500 loan. This scale of charges is of special interest because it formed the basis of the general pattern followed by this and other similar companies for the next ten years, and also because it pointed up some of the difficulties of enforcing limitations expressed in this way.

In 1930, the second small loans company was incorporated by parliament (chapter 68), being the Industrial Loan and Finance Corporation (now the Community Finance Corporation), with essentially the same powers as contained in the act of Central Finance as amended in 1929. In 1932, control of the Central Finance Corporation was acquired by U.S. interests. This was followed by the incorporation of a third small loans company in 1933 (chapter 63), the Discount and Loan Corporation of Canada (now the Personal Finance Company of Canada), which was also backed by U.S. interests. The following additional small loans companies have been incorporated by special acts of parliament but none except the Canadian Acceptance Company ever organized or commenced business:

| | Chapter No. | Year |
|---|----------------|--------------|
| The People's Thrift Corporation | 80 | 1928—Expired |
| Personal Finance Corporation | 69 | 1934—Expired |

That company, of course, had no connection whatever with the present company known as "Personal Finance Company of Canada".

| | | |
|--|----|--------------|
| The Small Loan Company of Canada | 72 | 1934—Expired |
| Canadian Acceptance Company | 82 | 1946 |
| Rinker Finance Corporation | 89 | 1948—Expired |

The complicated scale of maximum charges in the special acts of the three companies transacting business in the early thirties made it very difficult, if not impossible, for borrowers to understand the effective rate involved and it bore with undue severity on the very small borrower. Another difficulty arose through the tendency to charge borrowers the maximum \$10 fee for chattel mortgages whether disbursements were actually made or not; in one case, a sister company was incorporated to which was paid as a "disbursement" the entire chattel mortgage fee and expense charge received from the borrower. Experience pointed to the desirability of a flat percentage charge monthly on the balance of principal outstanding, in place of the complicated scale authorized, and the first step in this direction was taken in 1934 when, by an amendment to the Loan Companies Act (chapter 56) and overriding ceiling of 2½ per cent per month was placed on all charges by companies "incorporated or authorized by or under any act of the parliament of Canada and having power by virtue of any such act to make loans of any nature or kind". The amendment thus applied not only to the three special act companies but also to the few other dominion companies incorporated by letters patent under the Companies Act that were engaged in the small loans business.

The effect of the latter amendment, so far as dominion companies incorporated by letters patent were concerned, was to reduce the maximum charges to 2½ per cent per month on all loans; and the effect, so far as small loans companies were concerned, was to reduce the maximum charges to 2½ per cent per month on all loans up to \$181.20, repayable in twelve equal monthly instalments, the effective rate for larger loans decreasing gradually to 1.84 per cent at \$500, as follows:

| Amount | Monthly Rate for Interest and Expense | Additional Chattel Mortgage Fee | Equivalent total Monthly Rate |
|--------------------|---|---------------------------------------|-------------------------------------|
| \$ 50.00 | 1.48% | \$ 2.76 | 2.50% |
| 100.00 | 1.48 | 5.52 | 2.50 |
| 150.00 | 1.48 | 8.28 | 2.50 |
| 181.20 | 1.48 | 10.00 | 2.50 |
| 200.00 | 1.48 | 10.00 | 2.40 |
| 300.00 | 1.48 | 10.00 | 2.09 |
| 400.00 | 1.48 | 10.00 | 1.93 |
| 500.00 | 1.48 | 10.00 | 1.84 |

It will be seen that the effect of the amendment to the Loans Act in 1934 was primarily to reduce the maximum charge for the smaller loans.

The situation in the early thirties, therefore, was that dominion companies were limited in their charges whereas other lenders were not. Moreover, the chattel mortgage fee was authorized only for disbursements actually made and one of the three dominion small loans companies was operating mainly in the province of Quebec where lending on the security of a chattel mortgage was impracticable since the civil code of that province required physical possession of the chattels to be taken by the creditor in order that the pledge be effective. As a consequence, this company was limited to a charge of 7 per cent for interest and 2 per cent for expenses, both in advance, as respects most of its business, such charge being equivalent to a monthly rate of only 1.48 per cent. This company felt that its position was unfavorable in comparison with the other two companies operating mainly in the province of Ontario, but it supplemented its revenue by requiring borrowers to insure their lives to the extent of their loans through the agency of the company, the premiums and the commissions being established at relatively high levels. Further questions arose concerning the propriety of charging chattel mortgage fees to borrowers again when loans were refinanced, and there were complications involving refunds when loans were refinanced or prepaid by reason of the fact that charges were all deducted in advance. The entire situation continued to be unsatisfactory from almost every point of view.

By 1934, representatives of the small loans companies agreed at a meeting in the department that the practice of deducting charges in advance should be abandoned in favor of a simple monthly percentage applied to the amount of the loan actually made and remaining outstanding from time to time; by this time, too, the need for more effective general legislation governing the small loans business was becoming more and more apparent.

The whole subject engaged the attention of parliament practically every year during the thirties and was dealt with at each session from 1936 to 1939.

In 1936, bills to incorporate three new small loans companies (the Domestic Finance Corporation, the United Credit Association and the Atlantic Loan and Finance Corporation) were introduced but were not proceeded with pending further consideration of general legislation. In that year, a special subcommittee of the Banking and Commerce Committee of the Senate, to which the three private bills had been referred, gave much attention to the whole problem and recommended general legislation based on the principle of a flat monthly rate on outstanding monthly balances but left the rate to be determined by the full committee. That is, the full Banking and Commerce Committee of the Senate. The first decision of the latter established the rate of 2½ per cent per month for loans up to \$100 and 2 per cent per month for larger loans. However, representatives of certain provincially-incorporated companies contended that such rates would be insufficient to permit them to continue in business. The committee then decided upon a rate of 2½ per cent per month on loan balances of \$300 or less and 1 per cent per month on loan balances above \$300, payments to be applied first to the repayment of the element bearing 2½ per cent. The following summary compares the rates then permitted by the special acts of the three small loans companies with the rates established by the committee:

| Amount of Loan | Effective Monthly Rate Permitted by | | |
|-------------------|-------------------------------------|-------------------|--------------------|
| | Special Acts | First Decision | Second Decision |
| \$100 | 2·50% | 2·50% | 2·50% |
| 200 | 2·40 | 2·00 | 2·50 |
| 300 | 2·09 | 2·00 | 2·50 |
| 400 | 1·93 | 2·00 | 1·87 |
| 500 | 1·84 | 2·00 | 1·57 |

The draft bill with the final rates shown above was recommended to the government as a basis for general legislation but no action was taken, one of the main reasons being that the proposed rates exceeded the rates then being charged for the bulk of the loans made by the three small loans companies.

Upon reference to the table hon. members will see that the rates finally recommended in the right hand column were 2½ per cent for loans up to \$300, in which area most of the loans fell, and by comparison with the rates in the second column under the heading "Special Acts" it will be seen that the effective maximum rates which might be charged by the three small loan companies were considerably lower, being only 2·09 per cent for a \$300 loan.

Perhaps I might mention here that it was at this time, 1936, that the Canadian Bank of Commerce inaugurated its personal loan department.

In 1937, two of the three small loans companies introduced bills mainly for the purpose of substituting a more satisfactory scale of charges than they had in their special acts. On one bill, a flat rate of 2¼ per cent per month was proposed and, in the other, 2 per cent; later in the same session, the 2¼ per cent rate in the former was voluntarily reduced to 2 per cent also. The view of the department was that a rate of 2 per cent was appropriate as an upper limit for all lenders but this was opposed by the third small loans company and by some provincially-incorporated lenders who claimed that they could not operate at that level; rates of 3 per cent per month and even 3½ per cent, at least for the smaller loans, were said to be essential. Both of these bills were reported favorably by the Banking and Commerce Committee of the house but no further action was taken. The committee gave lengthy consideration to the whole problem and the prevailing thought was that the question of appropriate general legislation was of paramount importance.

In 1938, the same two bills were re-introduced but were not dealt with. Instead, attention was focussed on the need of general legislation. The Banking and Commerce Committee of the house studied the problem for months and heard witnesses from all over Canada and several authorities from the U.S.A. The committee's final report No. 14, dated June 1, 1938, was accompanied by a draft bill entitled "An act respecting interest on small loans". A flat, all-inclusive, monthly rate of 2 per cent on outstanding balances was recommended and the scope of the bill was limited to loans of \$500 or less. The committee's final report compressed in a few pages an excellent summary of the important aspects of the entire problem, together with the reasons underlying the rate recommended. I respectfully suggest the reading of this report by everyone studying the subject of small loans. I would draw attention particularly to the stated objective of the committee throughout its deliberations and which was emphasized in its report, namely, "to secure the best procurable rate for the borrower".

Opposition to the bill (mainly to the maximum monthly charge of 2 per cent on the part of certain lenders delayed its passage but it was finally enacted in substantially the same form in 1939 as "The Small Loans Act, 1939", with effect from January 1, 1940, and has stood unchanged up to date. It is probably unnecessary to refer now to many of its provisions but perhaps attention might be directed to a few main ones.

By Mr. Fleming:

Q. May I ask one question: in the final paragraph you refer to the opposition of certain lenders mainly to the maximum monthly charge of 2 per cent. Was it your contention that it was too high or too low?—A. Too low! They wanted a higher permissible rate.

Mr. BENIDICKSON: Mr. Chairman, may we have a ruling from you on whether or not questions would be welcomed when the brief is being read, or whether or not we should wait until the witness has finished reading his brief and then ask our questions?

The CHAIRMAN: I have already made a ruling that in view of the length of the brief we could have questions as we went along.

The WITNESS: (1) A "small loans company" is defined to mean a company incorporated by special act of parliament and authorized to lend money on promissory notes or other personal security and on chattel mortgages. In 1939 there were three such companies and there are now four.

(2) A "money-lender" is defined to mean any person other than a chartered bank who carries on the business of money-lending or advertises himself, or holds himself or itself out in any way, as carrying on that business, but does not include a registered pawnbroker. Apart from the few small loans companies, all other licensees under the act fall in this category, which mainly includes provincially-incorporated companies, although there are still a few partnerships and individuals who were in business before the act came into force. Since then, all new licensees have been companies incorporated either by the dominion or a province. If the former, that is, by the dominion, it is by way of a special act of parliament; if the latter, that is, by the province, it is usually by way of letters patent but at least one province also requires a special act of the legislature.

By Mr. Low:

Q. Which province requires it?—A. Manitoba.

The distinction between a "small loans company" and a "money-lender" is thus the method of incorporation, i.e., whether by a special act of parliament or otherwise. This distinction is carried through all reports and other data published by the department.

(3) The act requires a lender to be licensed by the minister if it wishes to charge more than 12 per cent per annum (equivalent to .95 of 1 per cent per month) on a loan of \$500 or less. A "loan" is defined as one in this area but the designation "small loan" is more usual. If licensed, the maximum charge on such a loan is 2 per cent per month for terms up to 15 months; for longer terms, the maximum gradually decreases according to the formula

15
1 per cent + $\frac{\quad}{n}$ of 1 per cent, where "n" is the term in months. This formula

permits a maximum monthly charge of $1 \frac{15}{18}$ ths per cent or 1.83 per cent for a term of 18 months, 1.625 per cent for 24 months, 1.50 per cent for 30 months, and so on, but in practice few, if any, loans of \$500 or less are made for more than 15 months. In fact, when the act was passed, the usual term was 12 months and although the act permitted the full 2 per cent to be charged on loans up to 15 months, it was not envisaged that the latter would become the standard term for loans of \$500 or less. One of the main justifications for a relatively high rate on small loans is their relatively short term; a rate that is appropriate for a short-term loan becomes excessive if continued over an unduly long term. After expiry of the term of the loan, the act provides

for a maximum charge of 12 per cent per annum on any instalments unpaid. All loans are required to be repaid in approximately equal instalments at intervals of not more than one month each.

(4) One of the basic and most important principles in the act is that the stipulated maximum charge includes all expenses and applies to the principal amount of the loan outstanding from time to time. Moreover, charges may not be compounded or deducted in advance. In other words, borrowers sign a note only for the amount of the loan actually received in cash and pay interest precisely on that amount for the actual time they have it, thus avoiding all of the problems that arise if charges are imposed when the loan is made and a refund of the unearned part is properly due the borrower in the event of refinancing or prepayment of the loan before the normal expiry date.

(5) The Superintendent of Insurance is required to inspect, at least once each year, the chief place of business of every licensee, and financial statements in prescribed form are required to be filed annually.

(6) The special acts of the three small loans companies existing in 1939 were amended and consolidated in a schedule to the Small Loans Act so as to conform to the provisions of that act.

Licensees under the act may, and most of them do, make loans over \$500 and also engage in other branches of the finance business as, for example, the purchase of conditional sale agreements from dealers, etc. These other activities are not presently regulated as to charges or otherwise by the act.

The experience of licensees under the act has been given in the successive annual reports of the department but I thought it might be helpful for present purposes to summarize the results in some respects and to analyze certain features such as expenses and earnings in greater detail than is customary. I have, therefore, prepared this special series of tables covering the more important items:

By Mr. Pallett:

Q. You mentioned conditional sale agreements being not controlled. Does that mean that effectively, if a company is engaged largely in the purchase of conditional sale agreements, the charges may be over 2 per cent a month?—

A. That is quite correct.

By Mr. Hollingsworth:

Q. Is that not governed by provincial legislation?—A. These other activities are not presently regulated as to charges or otherwise by the Small Loans Act. Alberta, Quebec, and New Brunswick have legislation relating to conditional sale agreements, but in only one or two of those three cases are the rates and the down payments dealt with.

In answer to your question I might say that licensees under the Small Loans Act who also purchase conditional sale agreements do so without restriction or regulation of any kind as to charges or otherwise.

By Mr. Pallett:

Q. Does that include the purchase of chattel mortgages?—A. That business is not generally carried on by any of the licensees. They purchase conditional sale agreements.

Q. But suppose they purchase chattel mortgages; there would be no restriction on them at all?—A. I am not aware of any.

Q. Do you know if an intermediate might be set up in order to circumvent this act?—A. That difficulty has not arisen.

By Mr. Fleming:

Q. You are exercising no functions with respect to companies in the area of loans above \$500 at the present time?—A. That is correct.

Q. But you present reports of loans in that area?—A. The annual statement that each licensee files naturally reflects the entire operations of the licensee; but that statement deals in much greater detail with loans of \$500 or less. Naturally, in order to give a balanced statement, other financial operations of the company are included but in rather abbreviated form.

By Mr. Crestohl:

Q. Suppose a lender lends \$500 and not over; would he be required to have a licence?—A. If the lender makes a loan of \$500 exactly, or under, he would be required to have a licence.

Q. If his business is that of money lending in excess of \$500?—A. Then, in that case, no licence is required. The act applies to loans of \$500 and under.

By Mr. Michener:

Q. That means the amount of the loan at the time it was made?—A. The amount of cash received.

Q. And if the original loan is in excess of \$500, and it is brought down to \$400?—A. The act would not apply to that loan at all.

By Mr. Fraser (St. Johns East):

Q. What would the effect be on the amount of the charge in the case of a conditional sale agreement?—A. Those figures are reflected in the tables, if we might deal with them later. On the average they are substantially less than the rates for a loan.

(See Tables A to I)

Before directing attention to certain trends and results portrayed by these tables, it might be well to comment briefly upon a few policies and practices that had a bearing on them; also, to refer to the only amendments heretofore proposed since the act was passed.

During the war and for a short time after, the granting of new licences was discontinued as a part of the plan to conserve manpower and to control credit. This accounts for the decline in the number of licensees to a minimum of 53 in 1944, at which it remained through 1946.

Those figures will be found opposite item No. 1 of table No. 1.

Concerning charges on loans, the uniform practice after the new act came into force was to charge the maximum permissible rate of 2 per cent per month and it is rather interesting that notwithstanding the previous protests of some lenders that they would have to discontinue business at that rate the great majority were earning a satisfactory return—so much so, in fact, that significant reductions began to be made by the larger lenders late in 1943. At that time, several of them adopted a graduated rate of 2 per cent on the first \$300 of any loan plus 1 per cent on the excess, if any, over \$300—the element carrying the lower rate to be repaid first. For loans up to \$300, the effective monthly rate remained as before at 2 per cent but for a \$400 loan the rate became 1.92 per cent and, for \$500, 1.81 per cent. Perhaps it might also be pointed out that this is the main part of the new formula proposed in the present bill. By early 1945, further reductions were made. Two of the small loans companies adopted a flat rate of $1\frac{1}{2}$ per cent per month on all loans while the third such company did the same for all loans over \$300, retaining 2 per cent for loans up to \$300. The largest money-lender adopted a flat rate of $1\frac{3}{4}$ per cent on all loans. Later in 1945 one of the two small loans companies that had adopted the flat rate of $1\frac{1}{2}$ per cent on all loans raised the rate to 2 per cent on loans up to \$300 but the largest small loans company continued for some time further to charge only $1\frac{1}{2}$ per cent on all loans.

In the light of this experience, the department recommended in 1946 that the maximum rate in the act be reduced from 2 per cent per month to $1\frac{1}{2}$ per cent. Bill 140 was introduced for this purpose at the 1946 session and was given lengthy consideration by the Banking and Commerce Committee of the house of commons.

By Mr. Fleming:

Q. I was on the committee at the time. Have you got the number of sittings which the committee had on that bill? My recollection is that it was very brief.—A. I recall that it went on into August. When it started, I have forgotten, but my impression is that it was sometime in June.

Q. The whole session was late that year, but it could be looked up. My recollection is that we did not have very many meetings on that bill. Mr. Finlayson was here then, and I do not recall that the industry had gone very far before the committee at that time.

The CHAIRMAN: We shall get it and clear it up for you, Mr. Fleming.

The WITNESS: However, representatives of the industry strongly opposed the measure mainly on the grounds that the great majority of lenders, more particularly the smaller ones, could not continue to operate under the lower rate and, besides, that it was uncertain with the prospect of higher expenses how long the larger ones could do so. The session ended without the bill being reported and it was not subsequently introduced again. By 1948, most lenders that had been charging less than $1\frac{3}{4}$ per cent per month had raised their rates to that level and by 1950 back again to 2 per cent. The reduced income and reduced earnings reflected in Table 1 for the period 1944 to 1950 are of course, accounted for by the reduced rates then in effect.

Concerning expenses, it should be explained that many licensees have associated companies operating jointly or in close association with them, such companies confining their business to loans over \$500 or to the purchase of conditional sale agreements, etc., or both, thus not requiring to be licensed under the act. The results of the operations of all such associated companies are naturally not included with the data for licensees but the expenses and earnings of licensees are nevertheless affected by the accuracy with which many expenses are apportioned between the licensee on the one hand and the associated company or companies on the other. The same comment applies to the allocation of expenses within a licensee as between its small loans business and other business it may be conducting. The accurate apportionment of expenses against different classes of business is always a difficult problem and each case has to be considered individually. To a large extent, the best method in any particular case is a matter of opinion. Certain expenses can readily be allocated specifically; some can reasonably be considered to be proportionate to the amount of the loan while others are more appropriately regarded practically as a constant per account. Some licensees consider that the best method is to apportion 50 per cent on the basis of amounts and 50 per cent on the basis of the number of accounts which, in many cases, brings out results very close to those produced by a much more detailed analysis. Most licensees have endeavored to make a reasonable allocation wherever necessary but there have been a few notable exceptions which in the view of the department tend to distort the results. On the whole, if any company or class of business has received less favourable treatment in the apportionment of expenses, our view is that it has been the licensee rather than the associated company, or the small loans business of a licensee rather than its other business.

By Mr. Michener:

Q. May I ask if most of the companies which are engaged in the small loan business are also engaged in other business?—A. Yes, sir.

Q. Are some of them only engaged in making small loans?—A. Yes, and the largest of them which comes to mind is Household Finance Corporation of Canada which does nothing but a lending business of \$500 or less.

By Mr. Fleming:

Q. Has any study been made by your department of the matter of apportionment of expenses?—A. As I have mentioned, I think it was generally considered that the apportionment of expenses between the offices of a company, or between the branches of a company, while governed by certain broad principles is, in the final analysis, mainly a matter of opinion because situations vary enormously amongst the several companies.

Where a licensee has seemingly been at sea in not having any particular formula in mind we have suggested a formula at least as a starting point. I might say, however, that the analysis of expenses is continually under consideration in a great many cases.

Q. I was wondering if your department had undertaken at any time a detailed and comprehensive study of the apportionment of expenses overall in business which might avail you in particular conclusions?—A. We have, naturally, studied expenses not only of each licensee, but of the licensees as a whole as reflected in the tables which I have presented today, but I do not think it is practicable to suggest or to recommend a formula that could or should be used universally by licensees.

By Mr. Michener:

Q. Do you mean that in this last sentence of the paragraph which you have just completed where you say:

On the whole, if any company or class of business has received less favourable treatment in the apportionment of expenses,...

in the apportionment of expenses by the companies themselves, do you mean?—A. I have referred really to two kinds of cases: first, the case where there is more than one company operating in the office.

Q. You mean one company operating under the Small Loans Act and one above that?—A. Yes, or in the conditional sale agreement field. The question of expense analysis arises as between a licensee on the one hand and the other companies on the other hand; and the second case which I had in mind was simply the allocation of expenses within the licensee, between its small loan business and its other business, where other business is carried on by the same licensee. Our annual statement attempts to keep a subdivision between the small loan business of the licensee and its other business so that one may form an opinion whether the small loan business is proving profitable or otherwise.

By Mr. Fulton:

Q. I take it that it is your view that companies tend to charge a rather high proportion of their expenses against their small loan business? Is that the meaning of that sentence?—A. My thought is, Mr. Fulton, that licensees have in general taken reasonable care to subdivide their expenses as accurately as possible. Naturally, differences of opinion arise as between the department and the licensee. In some cases we feel that the licensee is apportioning more, either to the small loans branch of its business or to a company that is licensed, than to other branches or associated companies; but I do not make an issue of it. We do feel, however, that if the pendulum swings in one direction it is towards a heavier apportionment of expenses towards the small loans business of the licensee.

Doc
Canada Banking and Commerce
Standing Committee on 1956

HOUSE OF COMMONS

CM 7013 Third Session—Twenty-second Parliament

1956



STANDING COMMITTEE OF TORONTO

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 14

Bill 51

An Act to amend the Small Loans Act

TUESDAY, JULY 3, 1956

WITNESS:

Mr. K. R. MacGregor, Superintendent of Insurance

STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

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| Argue | Hanna | Quelch |
| Ashbourne | Henderson | Regier |
| Bell | Hollingworth | Richardson |
| Benidickson | Huffman | Robichaud |
| Blackmore | Low | Rouleau |
| Cameron (<i>Nanaimo</i>) | Lusby | St. Laurent (<i>Temis-</i> |
| Carrick | Macdonnell (<i>Green-</i> | <i>couata</i>) |
| Crestohl | <i>wood</i>) | Stewart (<i>Winnipeg</i> |
| Deslieres | MacEachen | <i>North</i>) |
| Enfield | Macnaughton | Thatcher |
| Eudes | Matheson | Tucker |
| Fairey | Michener | Valois |
| Fleming | Mitchell (<i>London</i>) | Viau |
| Follwell | Monteith | Vincent |
| Fraser (<i>Peterborough</i>) | Nickle | Weaver |
| Fraser (<i>St. John's East</i>) | Pallett | White (<i>Waterloo South</i>) |
| Fulton | Philpott | |
| Gour (<i>Russell</i>) | Power (<i>Quebec South</i>) | |

Eric H. Jones,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, July 3, 1956

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day, Mr. John W. G. Hunter, the Chairman, presiding.

Members present: Messrs. Argue, Ashbourne, Bell, Cameron (*Nanaimo*), Crestohl, Enfield, Fairey, Fleming, Follwell, Fraser (*St. John's East*), Gour (*Russell*), Hanna, Hollingworth, Huffman, Hunter, Matheson, Michener and Regier.

In attendance: Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance; and representatives of certain Small Loan Companies and interested organizations.

The Committee resumed its consideration of Bill 51, An Act to amend the Small Loans Act.

Mr. MacGregor continued the reading of his statement on the Small Loans Act and was questioned at length thereon.

At 1.05 o'clock p.m., the Committee adjourned until 11.00 o'clock a.m. on Thursday, July 5, 1956.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

TUESDAY,
July 3rd, 1956
11 a.m.

The CHAIRMAN: Gentlemen, we have a quorum. You will recall that at the last meeting Mr. MacGregor had reached the bottom of the first paragraph on page 22 of his statement.

Mr. MacGregor would you care to proceed?

Mr. K. R. MacGregor, Superintendent of Insurance, called:

The WITNESS: Mr. Chairman and hon. members: I had begun to make a few brief comments concerning earnings when the last meeting was adjourned. If I may, I shall proceed from there.

There are several ways in which earnings or profits are measured in this business but no one method is free from question or provides a conclusive standard. If it is desired to measure the rate of return per dollar used in the business, regardless of whether that dollar comes from capital or is borrowed, then the interest paid on borrowed money should be ignored. This would be the case where earnings are expressed as a percentage of average loan balances, average assets or average total funds employed. If it is desired to measure the rate of return in relation to the lender's own funds or proprietary interest, so to speak, interest paid on borrowed money should then be treated as an expense. Sometimes earnings are quoted on the basis of the original amount of loans made rather than average loan balances and since the former are usually about twice as large as the latter, rates of earnings on this basis are about 50 per cent of the rates based on average loan balances.

In view of the many possible pitfalls, great care must be exercised in the interpretation of rates of earnings. No single method can be relied upon to prove whether the rates of earnings or profits are reasonable or unreasonable. The actual profits, rather than the rates, are probably the determining factor in attracting lenders to or discouraging them from the small loans field. The rates shown opposite item 14 of Table 1 are on the "gross" basis, i.e., before paying interest on borrowed money or income taxes. They are thus independent of the latter varying influences. These rates are put forward in this form mainly to show the trend of the inherent earning capacity of the total funds employed. Although a decline is indicated in recent years, especially in 1955, this is attributable mainly to the expansion in the industry, involving many new lending offices that take time to produce. Evidence of this strain is more apparent from an examination of the profits shown in Table 4 for new licensees during 1954 and 1955, listed towards the bottom of the table. As will be seen, most new licensees operate at a substantial loss for the first year or two until they get established.

The final item 15 in Table 1 shows the actual net profits on loans of \$500 or less, after all expenses including interest on borrowed money and income taxes have been paid. The decrease in profits in 1955 is again largely the result of losses amongst new licensees, of the strain of expansion, and probably to some extent also, of somewhat higher costs generally. It is difficult to segregate

the effect of each of these influences. However, the decrease in profits should not, in my opinion, be interpreted as any indication that the rates of charges for loans in this lower area are inadequate.

Table 2 gives an abstract of the experience for business other than small loans since 1950 because it is only since then that the volume of loans over \$500 has increased so rapidly. The data relate to loans over \$500 and also to financed paper such as conditional sale agreements, etc., where licensees are conducting that kind of finance business as well as making loans. Although the balances of small loans outstanding only increased from \$58,606,932 at the end of 1950 to \$88,824,459 at the end of 1955, or by 52 per cent—see item 6 of Table 1—the balances of loans over \$500 and other business increased during the same period from \$24,247,729 to \$109,523,731, or by 352 per cent. This clearly shows where most of the business is now done and the need for consideration of the charges being made for loans over \$500. Of the total balances of \$109,523,731 outstanding at the end of 1955, \$93,634,713 related to loans over \$500 as compared with \$62,585,440 at the end of the previous year. The balances (\$93,634,713) of loans over \$500 made by licensees alone now exceeds the balances—\$88,824,459—of loans of \$500 or less and it is known from data furnished through the courtesy of Household Finance Corporation Limited that that unlicensed company has an additional volume of loans over \$500 amounting to \$91,000,000. These figures still leave out of consideration loans made by all other unlicensed lenders.

By Mr. Michener:

Q. Would Mr. MacGregor say how many other unlicensed lenders there are?—A. We simply do not know, Mr. Michener.

Q. Thank you.—A. I do not think anyone knows accurately.

By the Chairman:

Q. How much of that balance that you showed on the previous page of your statement, where you said: "other business increased during the same period from \$24,247,729 to \$109,523,731, or by 352 per cent"—how much of that \$24 million odd and \$109 million odd would be straight loans over \$500, and how much of it would be for conditional sales agreements or that type of thing?—A. I cannot give you the division for the \$24 million odd outstanding at the end of 1950 because the annual statement blank at that time did not show the two separately. I have, however, given the division of the amount of the \$109 million odd.

Q. Is that in the tables?—A. No, it is in the text; and the total balance of \$109 million odd outstanding at the end of 1955 includes loans over \$500 amounting to \$93 million.

By Mr. Regier:

Q. At the bottom of page 23 of your statement it reads: "...the balances of loans over \$500 and other business increased during the same period from \$24,247,729 to \$109,523,731, or by 266 per cent."

Is that correct?

Mr. CAMERON (Nanaimo): Which is the right one? I have \$24 million odd or by 352 per cent.

The WITNESS: Your's is incorrect, Mr. Regier; your's was an earlier draft, and I cannot explain how that page got into your copy.

By Mr. Cameron (Nanaimo):

Q. It should be \$29 million odd?—A. The correct figures are \$24,247,729 at the end of 1950 and that total increased to \$109,523,731 at the end of 1955, or by 352 per cent.

Q. Then Mr. Regier's copy is wrong?—A. I recognize the percentage of 266 per cent that you mentioned, but I am sorry; that was an earlier draft which should have been replaced by a new page.

By Mr. Hollingworth:

Q. With respect to the \$109 million odd, should one add to that \$91 million odd from Household Finance?—A. If one is thinking of loans over \$500 only, the total balance of such loans on the books of licensees at the end of 1955 was \$93,634,713; to that total for licensees should be added, however, \$91 million odd relating to balances of loans over \$500, for H.F.C. Limited.

By Mr. Michener:

Q. Perhaps you could give us some indication of how many unlicensed lenders there are by considering who they might be. First, I would ask if Mr. MacGregor knows actually of any unlicensed lenders of that class other than Household Finance Corporation Limited?—A. We know of some, Mr. Michener, but I think it would be a broad guess at the very best if one were to estimate either the number of such lenders or the extent of their business.

Q. They would be persons or companies who are not engaged in the small loans field that you know of; therefore they must be lending exclusively in amounts of \$500 or more, and would they also have to be corporations?—A. Not necessarily.

Q. Or individuals?—A. They might be either individuals or corporations.

Q. If those are corporations, would there be no record of them in the Dominion Bureau of Statistics or other return-requiring departments?

Mr. CAMERON (Nanaimo): Perhaps they are provincial companies?

The WITNESS: I am afraid there is no record of the total volume of personal loans of all sizes in Canada. I do not think there are any data available, that is, data sub-divided by size of the loan.

By Mr. Michener:

Q. Have you any reason to think that there is any substantial volume of this kind of lending which is neither banking nor licensed?—A. I think there is a substantial volume but really I do not know how much. I do not think the industry knows how much, and I do not think that anyone knows accurately how much.

By Mr. Regier:

Q. Wouldn't all the new automobiles be financed by such companies and make up the large amount?—A. Well, that is really a different field.

By Mr. Michener:

Q. Does Mr. MacGregor know of any individuals who are doing business in a substantial way in this field?—A. Not in a substantial way comparable to these figures of millions. In a sense we are in the same position with respect to our knowledge of loans over \$500 by other than licensees as we were back in 1939 with respect to the field of loans of \$500 and under. Those lenders are not required to report to anyone and there are no consolidated data available with respect to them.

By Mr. Fleming:

Q. With respect to the Dominion Bureau of Statistics lacking the power to compel any form of report, it is up to the Dominion Bureau of Statistics itself to send out a questionnaire to perhaps selected individuals or companies in this field and it would only have knowledge and base its tests or sample results on the information it got?—A. That is my understanding, Mr. Fleming,

namely, that the figures of personal loans in Canada compiled by the Dominion Bureau of Statistics relate mainly, if not exclusively, to such loans made by the chartered banks, the small loan companies licensed money lenders, and credit unions.

By Mr. Michener:

Q. Would it be a fair conclusion to say that if there were any substantial volume of business of this kind done in a systematic way through branches and advertising, that it would be known?—A. Yes, I believe so.

Q. So we can assume that the total business done by other unlicensed lenders would not approach the business done by the Household Finance Corporation?—A. I am quite certain that it does not.

Q. I suppose that we can make use of these figures or rely upon them to this extent: that these are known figures we are dealing with here, and there is an addition of an unknown amount to be made to them, and how many persons or corporations are participating in that additional unknown volume of business is, itself, unknown.—A. That is correct.

Q. May I ask one more question: have you any idea at all, or anything to guide you, as to whether the number of these so-called licensed loans is growing, or has there been a tendency here for consolidation in the hands of the larger firms such as the four small loan companies?—A. I would expect that the number is growing.

Q. You say that you expect that the number is growing?—A. I would expect so.

Q. Even with the growth in the volume of business done by the larger corporations you are of the opinion that the number of unlicensed lenders is growing too?—A. If I were asked to guess, I would guess in the affirmative.

The CHAIRMAN: He already said that he does not know. This is a matter of opinion.

By Mr. Fleming:

Q. Would that apply to his last answer?—A. We do not know the full extent of the personal loan business in the larger loan area above \$500 which is presently unregulated, but we do know that there has been a terrific expansion in that field by the licensed lenders, so I would expect the trend or the increase in the case of unlicensed lenders to be somewhat similar.

Q. There is nothing more than that?—A. There is nothing more than that.

Q. To guide you in the answer which you gave me on a previous occasion?—A. Nothing more.

Q. Someone might be doing more business without an increase in the number engaged in that business?

The CHAIRMAN: This is not getting us anywhere. We are only guessing. We do not know.

Mr. FLEMING: I want to be sure that we are not drawing unwarranted conclusions.

Mr. HOLLINWORTH: We do know that more loans have been made over the last few years.

The CHAIRMAN: You do not want to make it a round figure?

Mr. CRESTOHL: Licensed lenders who lend under \$500—those figures you have; and if some of those licensees lend over \$500, you already have those figures?

The CHAIRMAN: That is correct.

By Mr. Crestohl:

Q. Are there licensed lenders or lenders who have licences to lend up to \$500, and who lend above \$500, for which they naturally require no licence?

I think you have only one such institution and that is the Household Finance Corporation; they have got a licence.—A. If I understand your question correctly, Mr. Crestohl, most licensed lenders make loans above \$500 as well as below \$500. Household Finance Corporation of Canada is the one notable exception, because that licensee restricts its business to loans of \$500 or less. The associated company, Household Finance Corporation Limited, which is not licensed, confines its business to lending above \$500.

Q. Do you have access to its records?—A. Through the courtesy of the company, they have furnished us with their financial statements in recent years and it is from such sources that I quote the figure of \$91 million odd of loans above \$500 for Household Finance Corporation Limited at the end of 1955.

Q. Where you have a licensed lender, do you receive from them any information on loans above \$500?—A. Yes, we have in every case.

Q. Is there an obligation upon them to supply it to you?—A. Yes.

Q. Or is it done voluntarily?—A. It is an obligation. The annual statement required to be filed by each licensee shows the portion of its business in the small loan field, in the field of loans over \$500, and in the field of financial paper. Unfortunately the subdivision between loans over \$500 and financial paper has only been made since 1953, but we have always had their small loans business shown separately from their other business.

Q. But there is some device used by Household Finance by which they are not obligated to give you information on loans over \$500?—A. They have a separate company which is unlicensed and with which we have no connection.

Q. Does it have a similar name?—A. Household Finance Corporation Limited.

Q. That is the device I referred to. But they do give you the figures as a matter of courtesy?—A. They have, sir, over the past few years.

The CHAIRMAN: It is not fair to use the word "device". They are not circumventing anything because they have given you the figures anyway, as a matter of courtesy.—A. We have them for recent years.

By Mr. Cameron (Nanaimo):

Q. Do they make available to you all the figures relating to loans—the same information that you get from the licensed companies?—A. No. It is not in the same detail. I think that if we asked them for it we would probably get it. We have their balance sheet, income, expenditure, and the volume of their loans. We have practically similar data. We sent a circular out last year asking licensees to classify their loans by size and Household Finance Limited, the unlicensed company, furnished the same information as was furnished by the licensed companies. I would not say we have the same detail but we have it substantially.

Q. Do they furnish you all the detail on the interest rates of loans over \$500?—A. Yes.

By Mr. Crestohl:

Q. Would it not help matters if licences were required by all lenders regardless of the amount?—A. One of the proposals in the bill is to raise from \$500 to \$1500 the area of loans for which a licence would be required.

Mr. Chairman, I realize that we are dealing with intangibles here, but in the statement Mr. MacGregor makes is the following:

These figures still leave out of consideration loans made by all unlicensed lenders.

After very searching inquiries we have not any evidence that there are any other unlicensed lenders, and I wonder if Mr. MacGregor feels that he ought to qualify that statement by adding the words "if any." Otherwise I think that we are entitled to know who are, in fact, the others doing business who are unlicensed. It leaves an impression that perhaps is not intended by Mr.

MacGregor.—A. Well, we know there are quite a few. Some of the automobile dealers alone are fairly active in that field, making actual cash loans above \$500.

By Mr. Fairey:

Q. Is that not the reason for the suggested change in the act to bring these firms making loans over \$500 into it and requiring them to furnish the information?—A. That was one reason.

Q. I think that that is the answer to Mr. Michener's question.—A. I do not think it would be correct to leave the impression that we think there are only a very few or perhaps no unlicensed lenders operating above \$500 because the industry and we know there are quite a few; but we have no access to any of their figures and do not know what volume of business they are transacting.

Q. Your words leave the impression with me that there is quite a field here and I would think if there is any substantial business being done along these lines of operation that it should be known. This kind of lending is advertised very extensively and there is great competition for customers. I do not see how anybody could be in this field in a substantial way and not be known.—A. I think in Toronto alone there are quite a few automobile dealers who make cash loans over \$500.

Q. There is a good deal of lending being done even by merchants who lend money to buy their merchandise; but here we are talking about strictly money-lending.—A. I have no objection to the deletion of the word "all".

Q. I do not want to suggest that you change it, but it gives me the impression that there are quite a few in the field and that you say that there are some, their number being unknown.

Mr. CAMERON (*Nanaimo*): Surely the department must have had some kind of inkling that there are a number of people who make loans up to \$1,500, otherwise they would not be introducing this amendment to control those people. I do not suppose that they have any accurate figures, but I would expect that Mr. MacGregor has his informants who tip him off once in a while that the tremendous rise of small loans in this area does not come within the scope of the act. Mr. MacGregor must have some reason, or else this amendment would not be here.

Mr. BELL: Mr. Chairman, we will be questioning the finance companies later and they will probably be able to give us some indication of what the competition is.

The CHAIRMAN: I do not think that the Consumer Loan Association keeps a record of the amount of cash loans made by unlicensed companies.

Mr. BELL: I appreciate that, but I am saying that they are in the business and would have closer contact than Mr. MacGregor as to who is operating in the field.

The CHAIRMAN: You will have an opportunity to ask them that.

The WITNESS: Items 2 and 3 of table 2, relating to income, would indicate that the rates charged for loans over \$500 are substantially less than for small loans but this is not so. The explanation will be found in table 6 where it will be seen that there is not much difference between the annual rate of income for small loans and other loans but the rates for conditional sale agreements, and so forth, are lower. The rates of income in table 2 are depressed by combining these two kinds of business but a separation was not made in the annual returns until 1953. Apart from some exceptions that I shall refer to later, most licensees are charging 2 per cent per month on loans over \$500. It is this practice more than anything else that calls for study and attention now.

Items 4, 5 and 6 show that the percentages written off the larger loans are approximately the same as for small loans, being roughly $\frac{1}{2}$ of 1 per cent of

outstanding balances but the percentages transferred to reserves for bad debts are somewhat higher. This may indicate a more cautious outlook concerning future losses on the larger loans but it can be explained also by the rapid growth recently in this branch of the business. At the present time the reserves for bad debts are maintained in about the same proportion for large loans as for small loans.

Items 7 and 8 show, as would be expected, a generally higher level of gross earnings for the larger loans than for small loans, especially amongst the money-lender group. The somewhat lower rate earned by all licensees combined on the so-called large loan business as compared with small loan business is accounted for by the fact that most of the small loan business is done by the small loans companies which as a whole enjoy a higher level of earnings whereas more than half of the large loan business (so far as licensees are concerned) is done by the money-lenders which, in general, are smaller and have lower rates of earnings. The rates in table 2 are, like those in table 1, depressed in recent years—especially in 1955—by the rapid expansion in new offices.

Item 9 of table 2 needs little comment except to point out that the net profits on "other business" have now overtaken the net profits on small loans business and nearly all of the profits of the money-lender group appear to come from loans over \$500. These results are, nevertheless, distorted to some extent by losses of new licensees and by an undue proportion of expenses being assessed against the small loans branch by some money-lenders.

Table 3 is a consolidation of the net profits shown in the final items of tables 1 and 2. Regardless of the manner in which rates of earnings are computed, these profits represent the end result of operations from the lenders' point of view. Upon reference to table 4, it might be noted that the net profits in 1955 would have been nearly \$500,000 larger had it not been for the losses of lenders that were only licensed in 1954 or 1955. Excluding these losses, the profits in 1955 were almost exactly double those in 1951.

Table 4 shows the final profits of each licensee separately and also its own funds in the business, the latter comprising the paid capital, surplus (if any) paid in by the shareholders, general reserves (only one case) that have been established through appropriations from the profit and loss account, and the surplus balance existing in the profit and loss account. In many cases, licensees are not paying dividends to shareholders but are allowing profits to accumulate in the profit and loss account to provide additional working funds. Net profits compared with lenders' own funds indicate the profitable nature of the business in most cases under present conditions. In the case Household Finance Corporation of Canada, mention should probably be made of the practice of paying a supervisory fee to the parent organization which at present is of the order of \$500,000 per year and is, of course, included in the expenses. If this fee were not paid, profits would be increased by roughly half this amount, after allowing for the higher income tax that would then be payable.

Table 5 gives a comparison between the volume of lenders' own funds and borrowed money, together with the average annual rates of interest paid on the latter. The licensees shown separately were singled out because they have the largest volume of small loans. In total, borrowed money outweighs lenders' own funds by more than three to one.

It is sometimes said that U.S.-owned companies obtain their funds in the U.S.A. at a lower rate than Canadian-owned companies can arrange in Canada, thus giving the former a competitive advantage or at least accounting in part for their larger profits. There hardly seems to be justification for this view since the largest U.S.-owned company, Household Finance, has paid 4.75 per cent since 1954 on all moneys borrowed from its parent and Personal

Finance has paid its parents 6 per cent since 1953. It might also be explained that a substantial proportion of the moneys lent by the parent organization in these two cases in the past has been raised from institutional investors in Canada on which the prevailing Canadian rate has of course been paid by the parent. There would be an advantage to the parent where money is borrowed either in the U.S.A. or Canada and lent to its subsidiary at a higher rate but this practice is also followed by some Canadian-owned companies.

By Mr. Michener:

Q. Mr. Chairman, would Mr. MacGregor say what the \$500,000 paid by Household Finance to its parent for service fees would amount to as a percentage of money borrowed from the parent?—A. About 1 per cent.

Q. If that were accounted for as an additional interest payment it would make it about $5\frac{1}{2}$ per cent?—A. It would seem that the average amount of borrowed money from affiliates, in the case of Household Finance, was—this is in table 5—\$45 million, so 1 per cent would be \$450,000.

Q. There is another point which I think might be raised here while we are dealing with the matter of borrowed money. There is a point which struck me in reading this material. Canadian licensed companies—small loans companies—are not allowed to borrow money on fixed debentures or bonds. Does that apply to the licensees who are not in the small loans company category, or can they borrow money on debentures?—A. That prohibition applies by statute only to small loans companies incorporated by parliament. But in practice we endeavour to ensure that all other licensees, that is to say the money lenders otherwise incorporated, follow the same practice, namely that they do not borrow on debentures from the public.

Q. Do you make that a condition, on being licensed, that they do not borrow on debentures?—A. It is not a condition included in their licence but we always discuss that point with a prospective licensee and obtain an understanding. There are, in one or two cases, debentures outstanding in the case of lenders who were in business when the Small Loans Act was passed in 1939; but they have not, I believe, issued any new debentures since then.

Q. In effect, although these other licensees have legal authority to borrow on bonds and debentures, in practice you make sure that they do not do so by exercising the licensing authority to obtain their assurance?—A. That is right. There are many points of that kind which arise in dealing with provincially incorporated lenders as against small loans companies incorporated by parliament. In general we have always felt that where parliament has spelled out the powers of small loans companies we should, as far as practicable, in licensing other lenders, see to it that they have similar powers or carry on their business under the same prohibitions.

Q. You agree that there is no statutory authority for your requiring that condition to the other licensees?—A. That is correct.

Q. The relative position is that the subsidiary of the American company, and Canadian companies, are under this restraint in borrowing; but the American parent company is under no such restraint in the United States?—A. I believe not.

Q. So Household Finance in the United States could raise as much money as it wished by borrowing on debenture issues and could pass on whatever was economic to its Canadian subsidiary, the effect of which would be that they would be getting fixed-term money which the Canadian companies cannot get under the present practice?—A. Of course several Canadian licensees are owned by parent Canadian companies which do borrow on debentures from the public.

Q. They might resort to that device, but if they do not have a parent they are under a disadvantage as I suggest?—A. Those without a parent company would be, yes.

Q. Have you had any representations made to you to alter your departmental practice to allow these licensees to borrow money directly on fixed-term securities?—A. No substantial representation that I can recall. Most of the licensees obtain their funds from the banks; that has been the general source of funds.

By Mr. Fleming:

Q. I take it that there has not been the same consistency, in the rate of interest paid by companies that are borrowing directly from the bank, to the rate paid by Canadian subsidiaries to the American parent companies that are supplying those companies with their funds?—A. Oddly enough, I am afraid the situation is just the opposite. Prior to 1954 I think Household Finance Corporation of Canada paid about 3 per cent on its borrowed money. And I think, speaking from memory, that Personal Finance paid about $3\frac{1}{2}$, and increased it to 6 per cent in 1953.

The rates paid by Canadian subsidiaries to their American parents are of course merely a matter of negotiation between themselves. Prior to 1953 I think perhaps the rates paid were unduly low but since then they have been more realistic.

Q. What has been the average rate paid to the banks in the same period? Have you any figures of those who depend on the banks for their loans?—A. I would say that it ranged from $4\frac{1}{2}$ to $5\frac{1}{2}$ per cent. It may be higher now. But in the last two or three years I think perhaps that would represent the main area.

By Mr. Michener:

Q. Have you any returns showing what rate of interest a licensee would have to pay for money today?—A. We do not get that information directly but I would guess that they are paying from $5\frac{1}{2}$ to 6 per cent.

Q. Do you know of any company paying 8 per cent?—A. To a bank?

Q. No, not to a bank.—A. The only case I can recall is where one licensee was paying its directors 8 per cent, and we expressed the view that it ought not to pay to its directors a rate higher than it was paying to the banks for money borrowed therefrom; that was an isolated instance.

Q. You would have an accurate picture of the rates being paid, I suppose, in your returns?—A. Our examiners could get that information, and they do get it in most cases in the lender's office. The annual return does not show the nominal rate paid on borrowed money. We can compute it on the average by taking the total interest incurred during the year and the average amount of borrowed money. But of course borrowed money may come from more than one source. There might be some from the banks and some from an affiliate.

Q. In general, however, it is fair to say that the rate which the lending company pays has increased in the last few months of last year?—A. Most certainly.

Q. In line with the general restraints which the governor of the Bank of Canada does not admit are restrictive but which nevertheless have had the effect of raising its interest charges?—A. I know it has increased. that:

By Mr. Regier:

Q. I am rather interested in the statement here where Mr. MacGregor says . . . Personal Finance has paid its parent 6 per cent since 1953.

I notice in table 5 that Personal Finance Company owes its parent company \$32½ million on which they pay 6 per cent, yet their average annual rate on borrowed money is only 5.42 per cent of which \$32½ million constitutes the

major portion, the principal money with which they do business. Is that not an indication that they are obtaining the Canadian money which they use, that \$4,800,000 odd at a rate very much lower than 6 per cent?

Q. What would be the purpose of paying 6 per cent to the parent company when they can obviously obtain money on the Canadian market at a lower rate?—A. That has been a matter of some discussion between the department and the company. I may say that we think that 6 per cent in the past has been rather high, but we have not been able to convince the company.

Q. Have you any indication of how much of this \$32½ million that is borrowed from the parent company is actually shareholders equity over there, or is possibly most of it obtained on the American money market, let us say possibly at 3 per cent, so that would make it a mere book-keeping transaction whereby they would make 2 or 3 per cent on that vast amount of money rather than attempting to obtain that money on the Canadian market where it is available, or obtainable at a lower rate?—A. I think that most of the \$32 million odd comes from debenture borrowings both in the United States and in Canada at rates probably varying, when the debentures were issued, between 3½ and 4½ per cent. I may be out one-eighth of a per cent either way in those figures, but I think that would indicate substantially the range at the time the debentures were issued.

Q. Would Mr. MacGregor want to venture an opinion as to how much lower the rate on debentures would be issued by the parent companies than by Personal Finance in Canada itself? I realize that a larger company is able to borrow at a lower rate on its debentures.—A. When we observe the rate paid on new issues of debentures by Canadian acceptance companies we think that Personal Finance ought to be able to borrow, if it had the power to do so, in Canada at a rate less than 6 per cent. We have seen new issues of debentures of Canadian acceptance corporations within the last six months or thereabouts at approximately 4 and three-quarters per cent.

Q. And a year or so ago it would have been even lower?—A. We have seen some at 4½ per cent, and the rates at the present time may actually be higher than that.

The CHAIRMAN: I do not think you can assume that, because they get some money from the banks at a lower rate, they could get the whole \$32 million from the banks, because the banks might not have that quantity to advance.

By Mr. Regier:

Q. I was not saying that; but it is obvious that 6 per cent is a fictitious figure which calls for a drain of money out of Canada which may be unnecessary. We do not know how much money is available on the Canadian market and we would not know until we were willing to pay up to 6 per cent.—A. I have expressed the view of the department that they could borrow at less than 6 per cent in Canada if they had the power to do so. We think so because other Canadian acceptance companies are borrowing at a lower rate, but that little difference of opinion has not been resolved.

By Mr. Michener:

Q. That may not apply to some of the recent licensees whose loan experience would not make them very good borrowers.—A. I think those losses are inherent in getting established in a substantial way.

Q. They think they will make money later on even though they may lose some at the beginning.—A. They must expect to.

Q. How many have gone out of business in the period covered by your first table?—A. I think that since the Small Loans Act was passed in 1939

about 125 licenses have actually been issued and there are presently outstanding about 73, so that roughly 50 licenses have terminated for one reason or another.

In some cases licenses were obtained even though the volume of small loans transacted was quite small. The licensee may actually have been more interested in making larger loans or in financial paper, but wanted to have a license in order to accommodate a few small borrowers who might come its way. Some of those licensees have disappeared. Some have sold their business to other licensees.

Q. It is not all a one-way-street business there have been some who went out of business, I suppose, insolvent?—A. Not many through insolvency.

Q. It would be interesting if we had that figure a little more accurately and definitely, if there is any record of it in the department.—A. I would say that very few have gone out of business through insolvency. There was the Family Loan Corporation in Halifax whose license was not renewed on June 1st of this year. That company made quite a few poor loans, and it followed a rather lackadaisical collection policy. This company also was one of our original licensees and it had some debentures outstanding. The debentures were causing some worry to the department lest the holders might lose. Consequently we watched that licensee very carefully. We felt a year ago that the time had come when it ought not to be permitted to continue as a licensee, and it wound up its business. The result was that no debenture holder lost any money, but the shareholders lost or they will lose most of their capital.

Q. I suppose, that, just like in other businesses, management is a very important factor in the success of the company?—A. It is very important, there is no question about that at all; it is a highly specialized business and it requires experience both in making loans and in collecting them.

Q. One could not imagine a quicker way to go "broke" than to lend money to anyone who wants it.—A. The lender could easily give it away. That is why we are apprehensive about licensees having the right to borrow money on debentures.

Q. The fact that you have a license is automatically a latch-key to wealth?—A. I think it would be incorrect to say that.

By Mr. Fleming:

Q. I do not know if you have an analysis made, but if possible it might be of assistance to us, because the figures you quote seem to indicate that out of 125 licensees at the original date, 73 are still in existence, which indicates that about 42 per cent have for one reason or another ceased to continue in business. Is it possible to analyze the reasons why 42 per cent have gone out of business?—A. We can very easily give you the history of each termination.

Q. It would be interesting to see them. I suppose in some cases it would be due to consolidation; in other cases it would be due to poor management; and in other cases it would be due to insolvency; so that before we draw any conclusion we ought to know what the situation was in each case. In the case of your newer lenders in the field, has there been any pattern distinguishable as to where they are, borrowing the funds that they are using, or are they using some equity capital. Other than some of the larger operators, is there any pattern in relation to the source of their borrowed funds that they are using in the business?—A. I think most of them are getting their initial lending funds from their capital or from the banks, but I have no doubt that as their business expands, more particularly in those cases where the licensee has a United States parent, they will get substantial lending funds from their parents. I do not think it has been necessary yet. But I would expect that is where they would ultimately get the largest volume of it.

Q. From what we know of the rather restricted terms on which we can expect to get credit from the banks under present conditions I take it that those who have American parents or associates back of them would have to look more and more to that source as long as present conditions continue. Is there any pattern discernible? Are there more of those recently entering the field of lending with American parentage or American associates standing behind them as to the source of funds borrowed or otherwise?—A. Most certainly some of them, I think. In answer to your question about whether there has been any definite pattern established yet—take for example the case of Seaboard Finance. Seaboard in the United States is one of the large operators. It formed a Canadian subsidiary in 1955 but it has opened only one office up to date, that in Toronto. I have not discussed the question with the company but I have no doubt that they may be marking time to see what changes there may be in the governing legislation for one thing. In that case, there is no question at all that Seaboard is an operator of such substantial size in the United States that it could readily raise the funds and lend them to its Canadian subsidiary.

The same applies to licensees like Pacific Finance Credit, the parent of which is a very large operator in the United States. In that case the Canadian subsidiary was incorporated in 1954 but it has already established more than 20 branch offices in Canada.

By the Chairman:

Q. I was wondering, when you are getting these figures as to the 50 odd companies which have gone out of business, in addition to those which went out through insolvency which you say are very few, if you could get those which went out of business because they felt they were not getting sufficient returns on their money, to make on that type of business a satisfactory return on their money.—A. I would be very glad to prepare such a table showing the reasons, as far as we know, for the termination of each license. I would say that in many cases where the volume of small loans dwindled to a very small amount it was not worth the trouble to be licensed and to furnish the annual returns which are required and to comply with all the other requirements; in these instances the licensees have voluntarily discontinued making small loans, simply because it was not worth their while, not because they were not making enough money on the few loans they made, but perhaps because of the trouble associated with the license which did not warrant the continuation of it.

By Mr. Cameron (Nanaimo):

Q. Would Mr. MacGregor look at table 4 and the figures relating to B. Bell Finance which is the twelfth item from the bottom of the list. I think perhaps if you could explain or give us your guess as to how this very strange thing took place we would know better how other companies work.

Apparently this company was only in business for two years, or just two years now at least as a licensed lender, and you will note that it has been making less profit every year according to its own figures. It started off with a gross profit payable before income tax in 1954 of \$1,205. The next year they went down to \$1,108. Then as to the net profit after income tax respectively for those years, they went down to \$964 and \$887 respectively. But curiously enough the paid-up capital doubled in that period—according to the final column of average paid capital, surplus paid in, general reserves and so on—more than doubled in that year when they made less money than they made the year before. Can you account for that?—A. The explanation is this: in the section of the table headed "Average paid capital" you will observe that in 1954 the average was \$17,500.

Q. Yes.—A. Actually the paid capital of the company from the outset was \$35,000, but the figure given for 1954 is the average capital outstanding during the year. At the beginning of 1954 it was zero. The company was just licensed in 1954 and the capital at the end of 1954 was \$35,000. There was no change in the actual capital in that case. The average figures given are perhaps a little confusing in that respect in the first year in which the company is licensed, because they are the average of the capital at the beginning and at the end of the year.

Q. What was the source of capital in the course of that year?—A. There was a shareholders' subscription of \$35,000 fully paid.

Q. Have you got the list of shareholders and directors of that company?—A. Yes.

Q. Could you give that to us?—A. Yes, although I have not got it here; I could bring it to the next meeting.

Q. There is only one shareholder according to my information.—A. If you would note the double asterisk footnote, it reads:

"The amounts in these columns are the average of the amounts as at January 1st and December 31."

The CHAIRMAN: I think there is even a more fascinating example immediately above it.

By Mr. Cameron (Nanaimo);

Q. I happen to know something about this one and that is why I asked about it. And while I am on it, I would like those figures of the average capital interest made in the figures given for the four small loan companies shown at the top of Table 4. We have the average paid capital for the four years covered by this table, and we have the average surplus paid in, I presume, to the capital account, the reserve account, and so on; and that is tabulated in the last column. You will note that in 1952 on an average capital of \$4,570,000 the average surplus paid was only \$12,570. There may be some explanation for that, but in the following year, 1953, the average surplus paid in was over \$5 million; and in 1954 it was almost doubled to the sum of \$9,687,570; while in the following year it dropped slightly presumably on account of the circumstances you mentioned; and if we look at the final column, we see that there on a capital of \$4,570,000 in 1952, the total amount of average paid capital was almost twice that—almost exactly twice that, \$9,122,502. That is, they paid in \$4½ million. And the next year on a capital of \$4,570,000 they paid in over \$10 million, and the next year on a capital of just under \$5 million they paid in a total amount of \$23 million; that is, they paid in some \$18 million; and the following year they paid in some \$20 million.

I have been working out, sir, the net profit after taxes on paid up capital, and in 1955 the net profit for those four companies according to the figures given here amounted to nearly 90 per cent of the paid up capital. It was 89·8 per cent for the small loan companies, while for the money lenders as a whole it was a more modest amount; it was only a little over 26 per cent. Is that a correct figure? Is that 89·8 per cent a correct figure of the net profit after taxes? I presume when you say "net profit" you mean after all expenses, on the paid up capital for the year 1955?—A. It is a correct picture if profits are related to paid up capital alone. However, I shall deal later on with the various ways in which profit ratios may be computed. But I think it is fair to say that in the case of the largest lenders who derive such a large proportion of their lending funds from their parents in the form of borrowed money, they do not need a large capitalization and most of them have not increased their capital very substantially.

Household Finance still has a capital of approximately \$3 million. Personal Finance had a capital of only \$250,000 until recent years when it took steps—when it apparently desired to increase its capital and paid in about \$10 million as capital surplus. A small fraction of it was used to pay up its remaining authorized capital which was still not paid, bringing it up to \$1 million; and it left the other \$9 million approximately as capital surplus.

My guess is that the money was part of a plan that included the bill the company introduced in parliament this year for the purpose of increasing its authorized capital to \$10 million. I think its intention was to raise its paid up capital to \$10 million.

However, for small lenders, I think it is reasonable to relate net profits to the proprietary interest in the business, represented by paid capital, the balance in the profit and loss account and any free reserves that the company may have. But for the largest lenders who derive most of their lending funds from parents in the form of borrowed money, it can become very misleading to relate profits to capital alone.

Q. On the other hand you have already told us that on all money borrowed from parents, they paid their interest; that the Canadian company paid its interest.—A. Yes.

Q. So it seems to me that you are back in the same position again. The money of the parent company has already earned its interest because it is paid and it is included in the cost.

The CHAIRMAN: In his statement Mr. MacGregor stated that he calculated the profits on the average total balance outstanding of money loaned and you did not charge up interest by working expenses?

The WITNESS: I shall deal with that question a little further on if you would care to go into it at that time. It is a most difficult one and I readily admit that it is most confusing.

By Mr. Cameron (Nanaimo):

Q. All right, but I do not find anything confusing about 90 per cent profit. I find something staggering about it, that we should be licensing these people to do this.

By Mr. Argue:

Q. With respect to the statement you made at the top of page 26, referring to net profits and showing the profitable nature of the business, you say:

In the case of Household Finance Corporation of Canada, mention should probably be made of the practice of paying a supervisory fee to the parent organization which at present is of the order of \$500,000 per year and is, of course, included in the expenses.

Would you explain to the committee what the \$500,000 is for and the value that Household Finance Corporation of Canada received for having paid that sum to its supervisory company?—A. The main justification put forward by the company for the payment of that fee, as I understand it, is management, policy direction and services that are provided by the home organization in Chicago for the benefit of all its operating companies and branches spread across the United States and Canada. Some of the accounting work is also done by the head office of the parent in Chicago rather than at the head office of the Canadian company in Toronto.

Q. Is no part of that expense item, or any part of that expense item listed by this company because the company is able to use the name of the parent company?—A. Would you mind repeating that, please?

Q. Do you know—make this a general statement—do you know whether any of these companies which have been mentioned—whether any one of them pays a fee to the present company in the United States for the use of the same name or of a similar name in Canada?—A. In no case am I aware of any specific fee or payment for that purpose.

Q. In the case of this \$500,000, do you feel that this company got good value for its money or do you think that it was just another way of padding the books?

Mr. CRESTOHL: Mr. Chairman, on a question of order, is Mr. MacGregor the best man to give us this information? Should we not wait until we have one of the officials of the company?

The CHAIRMAN: I do not think that is a question for Mr. MacGregor. You could ask it of Mr. McEntyre of the income tax department. Surely he is the one who would have to be convinced that it is a proper expenditure.

Mr. ARGUE: I would like to have Mr. MacGregor's opinion so that we can go on to convince the income tax people that it should not be allowed. I do not know if we can do that. To do so might prevent this kind of practice—if Mr. MacGregor could say that if they did not pay that amount to the parent company, their profits would be increased by just that amount; in other words if the fee were not paid—if they did not have that added expenditure whatever it might be for services allegedly provided—it would result in a change in the net profit position of the company.

Mr. CRESTOHL: This is not an income tax enquiry we are conducting, Mr. Chairman.

Mr. ARGUE: If we are on a point of order, then I suggest that if those companies are using fictitious expenditures as a means of fleecing canadian consumers then it is a very pertinent matter of enquiry for this committee, and that any enquiry we might make of the Department of National Revenue is incidental to this enquiry.

The CHAIRMAN: I suggest that you are wrong.

Mr. CAMERON (Nanaimo): I think this is part of the practice of the small loan companies which we are now investigating and I do not see how you can personally come to any other opinion about it.

The CHAIRMAN: Mr. MacGregor's position is that he receives these sheets with the information on them; whether it is a proper charge or not is up to the Department of National Revenue and not up to this committee. I suggest you are not in order.

Mr. ARGUE: I am going to press the question because I think it is an important one. Mr. MacGregor is thoroughly informed in the business of small loan companies in this country. I feel that perhaps above all other persons in this nation he is, in this particular field, perhaps the best informed. I think that the question as to these large sums of money which he points out in this report or statement, and which were placed therein by Mr. MacGregor, should be a matter of questioning of Mr. MacGregor. He can say that he has no information about it, or if he wishes to discuss the statement, I think it is perfectly all right to ask him any questions we care to about his own statement. He can then decide whether he wishes to answer or not, or the nature of the answer he wishes to make.

The CHAIRMAN: If Mr. MacGregor were called upon to advise Mr. McEntyre as to whether he thought it was a proper expenditure, he might answer such a question; but otherwise I do not see how he can.

Mr. ARGUE: I am not asking questions in relation to the income tax. I am asking whether this is in fact a legitimate expenditure which should be placed

in the accounts of this company. That is why we have Mr. MacGregor here. And I want to know as well to what extent other companies are inflating the expenditures in their balance sheets to show a smaller profit than in fact they had made, and I suggest in fairness that Mr. MacGregor should be allowed to answer the question.

The CHAIRMAN: Can you answer it, Mr. MacGregor?

The WITNESS: Our endeavour in the administration of the act is to try, as far as possible, to see that the licensee stands on its own feet; where a licensee is owned by a United States parent there may be a disposition for the parent to want to do its accounting and keep its records in some respects at the home office in the United States. We always endeavour to ensure, as far as possible, that the licensee stands on its own feet and has its records at its Canadian office. There are many instances where a question arises concerning money flowing to or from the parent, whether it is money borrowed, or a supervisory fee as in this case; and our endeavour again is to try to see fees of this kind reduced as far as possible. We have discussed such items from time to time with company officers and I may say that some reductions have been made. But we would like to see some further reductions made if for no other reason than to see the Canadian company operate as independently as possible and pay its own way as the largest operator in Canada. It is a matter of opinion whether, and to what extent, payments by any subsidiary to its parent as a share of head office overhead are justified.

By Mr. Cameron (Nanaimo):

Q. You speak of head office overhead. As far as Canada is concerned how can any office in New York or Chicago be the head office of this company which is operating under a charter from this parliament? Is there not a legal requirement that every Canadian company keep its entire books in this country at its head office here?—A. It is not a legal requirement, but they do keep their records at their head office in Canada. We must insist upon it in order to be able to examine the financial returns submitted.

Q. Surely every Canadian company must have its full books of records in this country?—A. A great volume of statistical work may nevertheless be done, or statistics processed, where the parent company is organized for that purpose and has facilities for doing it.

By Mr. Argue:

Q. Do other finance companies which are Canadian companies owned by American companies have similar fees, or is this the only one?—A. This is the only licensee owned by a United States parent which pays such a fee; but there are Canadian licensees who pay certain fees to their Canadian parents.

Q. Could you give us an outstanding example in the sense that they pay a very substantial sum?—A. Trans-Canada Credit pays to Traders Finance, its parent, a management fee of one per cent for raising its borrowed money.

Q. For what?—A. For raising its borrowed money, for raising some of its lending funds. Trans-Canada also pays a so-called contract fee to its parent for preparing documents used in the loan business. Niagara Finance pays a service fee to Industrial Acceptance Corporation, its parent, amounting from 75 cents to 85 cents per month per \$100; that fee is justified by Niagara because Niagara and I.A.C. jointly occupy a good many offices, and the fee is in reimbursement of salaries, rent, and services provided by the parent.

Q. Where Trans-Canada Credit pays to Traders Finance one per cent, for Traders Finance raising its funds, can you tell me, generally, how Traders Finance raises those funds? They go to the bank and get them, do they not?—A. By issuing debentures. You may have noticed in the press last fall a fairly substantial debenture issue floated by Traders Finance. Niagara, however, as a rule borrows from the banks.

Q. Do you feel that one per cent is unduly high or that money might be saved if this company did it directly—that it could save that amount of one per cent?

Mr. CRESTOHL: Mr. Chairman, I rise again on a point of order. I think that to ask Mr. MacGregor whether a rate is high for services rendered or for management given is putting Mr. MacGregor in a very invidious position. He reports to this committee, and I do not think he means to judge as to whether the company has made an overcharge or has managed its finances in a certain form as long as it is properly done. As to whether or not they have financed themselves in a way so as to minimize their tax liabilities, that is not Mr. MacGregor's province, and I think that to put him on the spot and question him whether he thinks it is a proper, a high, or a low charge, is not a question which he should be asked before this committee.

The CHAIRMAN: Even supposing that it is Mr. MacGregor's task to investigate these charges, I do not see that he can investigate them from the same point of view as that of the Department of National Revenue. His field of occupation is somewhat different and that is why I suggest that when you use the word legitimate or otherwise, the Department of National Revenue does not come under the field of the superintendent of insurance, and of small loans companies, and they are not looking at it from the identical points of view as to whether it is a legitimate or proper charge.

Mr. ARGUE: I am not enquiring of Mr. MacGregor whether he thinks this is legal or illegal. I am not asking him that at all. But I wonder whether this may be a type of expenditure that is listed on the balance sheet and is something which it is the main purpose of this committee to enquire into, in respect to small loan companies, to see whether or not in fact savings can be brought about, and to see whether the interest rate can be reduced and a saving thereby made to the Canadian public. That is why I ask whether Mr. MacGregor, who is a recognized authority, thinks that this is a type of expenditure which might in fact be reduced, and if it can be reduced without causing undue hardship to the company and passed on to the consumer, I take it that is the purpose of the committee; but I am not enquiring whether it is legal or illegal. I merely ask whether it is a type of expenditure which might be reduced.

Mr. CRESTOHL: Would Mr. MacGregor first tell this committee whether he considers himself to be an expert, whether he is able properly to assess the value of the services which the parent company gives to one of its subsidiaries? If Mr. MacGregor tells us that he considers himself an expert and competent enough to assess the rates to be charged, then we could have his answer.

Mr. ARGUE: I do not know of any man who could have a better opinion.

Mr. CRESTOHL: I do not know.

The CHAIRMAN: Do you consider yourself qualified?

The WITNESS: I should prefer to side step that question and to correct an error I made when I mentioned that Trans-Canada Credit, the licensee, pays its parent, Traders Finance, one percent as a management fee for making its financial arrangements. I was speaking from memory and I think the rate is actually one-half of one per cent. Trans-Canada does however pay its parent, Traders Finance, six per cent on all monies borrowed on its behalf so that, taking the management fee into consideration, the total rate paid is $6\frac{1}{2}$ per cent. And if I were asked for my opinion, without setting myself up as anything, I would say that $6\frac{1}{2}$ per cent seems rather on the high side having regard to the rates paid by most licensees for their borrowed money.

By Mr. Argue:

Q. You mentioned a few minutes ago that Traders Finance or some other company floated debentures. Would you tell me the cost of the money to Traders Finance?

The CHAIRMAN: Do you mean the interest rate, or the net cost?

By Mr. Argue:

Q. I mean the interest rate.—A. Speaking from memory I think that the advertisement I noticed last fall in respect to the debenture issue of Traders Finance mentioned the rate of $4\frac{1}{2}$ per cent.

Q. If the parent company borrowed the money at $4\frac{1}{2}$ per cent, and if $1\frac{1}{2}$ per cent is for the cost of obtaining that money, then what in the world is the extra $1\frac{1}{2}$ per cent for, the difference between 5 and $6\frac{1}{2}$ per cent? It is merely profit or a large part of it would look like profit for Traders Finance Company, so that when we look at the books of Trans-Canada Credit or the corporation, whatever it is called, and we look at them to decide whether or not this company is giving value for its services, and whether or not it is making an undue profit, we could then tell by looking at that company because it is a parent company, on the basis of providing money at an extortionate rate for its money, $6\frac{1}{2}$ per cent.

Mr. CRESTOHL: I think we should be a little more cautious in the terms we use. Where is that expression used? I do not see it.

Mr. REGIER: Mr. MacGregor is reporting to us on the operations of the small loan companies and money lenders in his report to illustrate the net earnings of these companies, and Mr. MacGregor very properly points out to us and to the Canadian people that the reports are inaccurate in so far as they contain over-excessive charges in one case.

The CHAIRMAN: Just a minute now, Mr. Regier. Let us get this straight. At no time has Mr. MacGregor used the words "over-excessive charges". Those words are yours, not his.

Mr. REGIER: All right. I should then point out that he adds to that statistical table showing the net earnings—he adds this comment: that these companies are paying to their parent companies a rate of interest, and also in one case $\$ \frac{1}{2}$ million per annum supervisory fee. If there is no reason for mentioning it, I am sure he would not have mentioned it; and I think he should be commended for calling our attention to the fact that the net earnings actually should be shown higher than they are being shown. Mr. Chairman's figure of 89.8 per cent might well be considerably over 100 per cent if the interest rate to the parent company were a realistic one, and if the supervisory and other charges were realistic.

The CHAIRMAN: But if, as Mr. MacGregor stated, you can calculate the profit not on the capital invested but on the balance outstanding of money loaned and do not charge interest as an operating expense.

The WITNESS: I mentioned these things mainly because I think one should be aware of them in order to understand the full position of each licensee.

The CHAIRMAN: What you have done is quite proper; you have given us information and it is up to the committee to draw its own conclusion.

By Mr. Michener:

Q. Is there a table which shows the total of payments which pass between the small loan companies and their parents? You mentioned in the case of Household Finance the interest paid on their borrowed money from the parent company in the United States, and that they paid \$500,000 as a fee; I suppose they pay a dividend on their paid up capital to the parent company? Is there

a table which shows the total payments which pass between the companies which are organized in this way?—A. No. I have not prepared a table of that type.

Q. Do you have the information in your reports which are available to the committee?—A. Yes.

Q. The committee is interested in learning actually the cost of doing business for these companies as licensees, and your tables show us the cost. If we wish to question the cost, we would have to have the details of the transactions?—A. The annual statements of course show the payments made by every licensee whether under the heading of interest on borrowed money or dividends to shareholders.

Q. Are the annual statements which are filed with your department privileged as they are in the income tax department?—A. The information is contained in a published report, and by following the reports from one year to the next, all that information is given.

Q. We can see in the published annual reports the details of the annual statements of each of your licensees?—A. Yes, with this comment: in the case of interest paid on borrowed money, the payee is not usually shown, so that if the licensee borrows from the banks as well as from its parents, we would not be able to tell from the published statement how much the parent gets for the borrowed money, and how much the banks get.

By Mr. Fleming:

Q. Would it not be prudent to ask Mr. MacGregor to prepare a table on that with the information available rather than to have the committee seeking for that information through the reports? We have had some discussion this morning which would indicate that it might be better if Mr. MacGregor prepared such a table for us.—A. I would be quite happy to prepare such a table but I am afraid we would be in the same position with respect to the point as any member of the committee would be, because the annual statement itself does not show the payee in the case of interest on borrowed money.

Q. It could not be complete in other words. I have just one more question in regard to this matter of the average paid capital. On table 4 you simply take the amount of paid capital as at January 1st and as at December 31 in the year, and add the two together and divide it by two. That is all you have done?—A. That is right.

Q. Without regard to any fluctuation in the meantime?—A. That is correct.

Q. One further question; on the supervisory fee of \$500,000 in the case of Household Finance, at the top of page 26, that is a flat sum arrived at by agreement between the two companies? It is not a percentage agreed on?—A. No. It is not a round sum. I mentioned a round sum to indicate the relative magnitude of the fees actually paid year by year; but actually it is arrived at by an analysis of the expenditures of the parent company and of the Canadian company, and of other members of the organization. The amount of the fee varies every year.

Q. In the many various subsidiaries of the parent company is the amount determined on any recognized percentage basis?—A. What is the basis of determination for the allocation of that total amount of the company's—particularly the allocation to the Canadian offices?—A. The formula used by Household Finance is quite involved and includes an analysis of salaries, accounting fees and expenses, conference fees, depreciation, directors' fees and expenses, fees of registrars, transfer agents, trustees' fees, legal fees and expenses, membership fees, office expenses, supplies, postage, express charges, rent, telephone and telegraph, travel, savings and retirement contributions.

They have a formula which involves an analysis of all these items of expenditure made both by the parent organization and by the Canadian subsidiary. I can give the percentages applicable in the case of some of these items; but they vary a good deal.

Q. Does the percentage advance from year to year?—A. Not to my knowledge.

Q. We can take it then that the formula has been in effect for a few years?—A. The company has followed the practice of paying supervisory fees, so far as I can recall, ever since 1932 when it first acquired control of Central Finance.

Q. In that period, has it followed the same formula?—A. No. It revised the formula in 1954 following some discussion that the department had with the company.

Q. In which direction was it revised?—A. Downward. I may say we have been living in the hope that it will be reduced more and more.

Q. Are there any other companies involved in this adjustment on the formula basis other than the parent companies in the United States and the Canadian company? Are there any other subsidiaries which have entered into this?—A. Yes. The other subsidiaries are involved. Take, for example, H.F.C. Limited, the unlicensed company; it is involved in the same way as the licensed company H.F.C. of Canada is involved.

Q. Are there any companies in the United States subsidiaries there which enter into this distribution?—A. Yes, I believe there are.

Q. Whatever may be said about the way in which the formula works out in terms of amount, this formula is set up with a view to distributing among various subsidiaries part of the overhead cost that is attributed by the parent company to the total business of the total parent and its own affairs in relation to its subsidiaries?—A. I think that statement is correct.

By Mr. Crestohl:

Q. Do the annual payments vary in amount?—A. Yes.

By The Chairman:

Q. This, I presume, is a fee which the parent company and the subsidiary companies have agreed is the proportionate share which the subsidiary company should pay for the benefits which they receive by this service which is performed by the head office?—A. Yes.

By Mr. Cameron (Nanaimo):

Q. Do I understand from your statement that you have been hoping that these amounts would be reduced and that you would entertain some doubt as to whether the payments are justifiable at the present rate?—A. I think that payments for head office overhead are always a matter of opinion. We prefer to see them reduced or even eliminated if possible. I do not think that it is practicable, in some cases, but that is our ultimate hope.

By Mr. Gour (Russell):

Q. I want to clear up one thing for myself. Are those head offices in the United States able to say to their offices in Canada and to the Canadian people, "We have to have so much percentage for the administration of those Canadian offices." If they say it costs 6 per cent or 7 per cent, are they able to do that? I am referring to the head offices, and I may call those head offices United States office headquarters. They say to their offices in Canada here that they have to pay so much of a percentage to administer those things. Are they able to do that? Have they the right to collect \$500,000 at headquarters?—A. There is nothing to prevent their doing it if they can justify it. The only question is whether it would be allowed for income tax purposes.

Q. I do not think it is fair if they want to deal in this country that they should tell the offices in Canada that they have to pay so much. They take away whatever small profit those companies do make in Canada and transfer all the profit to the United States and they are not paying tax. They say that those offices in Canada are not making money. If they want to deal in this country their head offices should be here and they should have to prove to the Canadian authorities that they have so much expense and how much they have left, for income tax purposes. As it is, they transfer all the cream of the profit from those companies in Canada back to the United States.

The CHAIRMAN: I think perhaps you might leave that for Mr. McEntyre.

Mr. BELL: Would Mr. MacGregor care to say whether, in his knowledge, he thinks that the fees charged by the finance companies for their head offices are lower compared to the similar fees which might be paid by other companies in other types of business such as the insurance business. I am speaking very generally.

By Mr. Crestohl:

Q. Would you take insurance companies as a yardstick with head offices in the United States?—A. In the first place, Household Finance is the only United States company which pays such a fee.

By Mr. Bell:

Q. In the finance field?—A. Yes. I would hesitate to offer an opinion as to what is a fair share of overhead to be borne by a subsidiary. So much would depend upon the actual services rendered by the parent and how the subsidiary is constituted. Mr. Crestohl raised the question of insurance companies. So far as the British and foreign insurance companies are concerned, they are not allowed to deduct as an expense in their Canadian statements any amount for head office overhead for income tax purposes and, consequently, no such amounts are shown in the Canadian statements at all. That is one of the elements in the tax formula applied to British and foreign insurance companies. It may seem hard on external companies to get no allowance for head office overhead but

Q. Is it statutory?—A. No. But, on the other hand, they do not pay tax on investment income, except where they may have Canadian investments over a specified limit.

Q. But are there any other fields of activity in the business world where they may be operating under the same system?—A. I think it must be admitted that it is fairly general practice because it is covered by an international trade agreement between Canada and the United States of America, and Canada, and other countries; such an allowance as head office overhead is specifically provided for.

The CHAIRMAN: I do not think that you can expect Mr. MacGregor to cover the whole gambit of trade or manufacture. The most obvious example is where the parent company centralizes scientific research and charges its subsidiaries for a share of it.

By Mr. Bell:

Q. Do you not feel, Mr. MacGregor, that there is a slight difference in principle between the fee that is paid by Household Finance to their parent United States company and these various bookkeeping or accounting entries that may be made within various head offices and branches? There would be a distinction there in that generally?—A. I really think that every case has to be studied on its own merit.

Q. May I ask if the balance sheets of the companies would give a different indication of those two examples, or would they both be not shown? Is there any difference?—A. I think it is not usual for a fee of that kind to be shown

separately in the expenditure statement. The various items of expenditure are adjusted to take the fee into account; that is the practice in H.F.C. One will not find these supervisory fees listed as such in the expenditures in the financial statement.

Q. In the American situation, and the solely-owned situation in Canada, would the effect on the shareholder be different? In other words, I am suggesting that we may be worrying very unnecessarily particularly about the situation in Canada because I feel that they may be just accounting and book-keeping methods that are used and approved of in every day business.—A. Our main interest in the fee, of course, is to get in the position of enabling us to ascertain the profits of the company; and also, of course, to help one form an opinion as to whether the present maximum rate prescribed is too high, or much too high, or how appropriate it is.

By Mr. Fleming:

Q. I understand, Mr. MacGregor, that you have sought the income tax department, as a matter of policy, to bring about a reduction in this so-called supervisory fee?—A. I do not recall that we have ever discussed it with the income tax department. Any discussion we had with the company was on our own initiative.—A. It was done independently of the Department of National Revenue?—A. Yes.

Q. I take it then, independently of that department, that you have sought, as a matter of policy, to bring about a reduction in the supervisory fee that is paid?—A. We would like to see all Canadian licensees constituted as independently as possible and particularly the largest operator in the field.

Q. Did you answer my question "yes" in the beginning before you went on to state that objective?—A. I have forgotten your question.

Q. I was asking if, independently of the income tax authorities, you sought to bring about a reduction in the supervisory fee that is paid.—A. The answer is "yes".

Q. But, I take it from your answer, that your purpose in seeking a reduction in that tax is related to a desire to see more of that service which is now performed at the head office done in Canada—those overhead services that are now performed at the head office?—A. Partly that, Mr. Fleming. We would not want to suggest a change in practice that would lead to an increase in the burden of expense. But we would like to see the largest Canadian operator in the small loans field organized to carry on its business as completely and independently as it can in Canada.

Q. I follow you there. I just wanted to be quite sure I understood it was that objective, which is quite understandable, that has led you, as a matter of policy, to seek a reduction in the amount of the supervisory fee paid by the Canadian subsidiary to the American parent company. Do I understand that those things are related in that way?—A. Yes, I think so.

By Mr. Cameron (Nanaimo):

Q. Is that your sole reason, Mr. MacGregor?—A. We want to make sure that any such payment made is justified.

Q. Precisely. What is the interest income of Household Finance? I am thinking of the half a million dollars fee in relation to the amount of money borrowers pay into the company. In other words, the relative size of this supervisory fee.

The CHAIRMAN: It is slightly under 1 per cent.

The WITNESS: It amounts to a little less than 1 per cent of the average amount of money borrowed by Household Finance from the payment company and affiliates as shown in table 5; but I think your question is, what proportion does the supervisory fee of \$500,000 bear to the interest income collected from borrowers.

Q. That is right.—A. The income of H.F.C. in 1955 is shown in table 8 as being about \$12 million.

Q. On small loans?—A. Yes. So the supervisory fee would constitute about 4 per cent of income received from borrowers.

Q. If there could be any substantial reduction made in this fee it could reflect in a substantial saving to the borrowers if it were passed on because 4 per cent is a substantial interest rate?—A. Yes. Any reduction in expenses would result in an increase in the company's earnings and profits, not to the full extent but to a partial extent.

By Mr. Michener:

Q. Does Mr. MacGregor suggest that the concern about this item is the reduction in the cost of doing business or that he wants to see an independent organization in the country?—A. I think we are prompted more by a desire to see that the results of the company's operations are reflected as accurately as possible.

Q. In other words, it makes your accounting easier if everything is in one balance sheet so to speak.—A. Yes. I think that it would be easier, but I think our primary motive is accuracy.

Q. We would not want to do away with a fee and find the cost of doing business was greater here. You would not want that position?—A. No. We would not want to interfere with a company's method of operation.

Q. In a way that would increase its costs. In other words, it is a matter of which is the most effective way to do business.—A. That is for the company itself to decide.

Q. You do not want to tell this great field of licensees how they should do business?—A. It is certainly not our function, and we have no power, to tell any company how to do its business; but we must insist that the company keep records at its head office in Canada sufficient to enable us to verify the accuracy of its annual statement.

Q. I would accept that within some limits because we have already seen some instances of how you direct the method of doing business in this field in your own discretion, which you are given under the act, and not in accordance with any legal interpretation; but I take it, you would agree any matter of business judgment as to salary or what is paid for any service is not your concern?—A. That is right.

By Mr. Cameron (Nanaimo):

Q. When you speak of accuracy of accounts, I presume you have in mind the necessity of assuring that all items which are put into the column of costs are legitimately there rather than placed under profits?—A. That is correct.

Q. That is what you have in mind when you speak of accuracy?—A. Yes.

By Mr. Crestohl:

Q. How can you possibly establish what would be an appropriate charge for the services in the head office? We want to establish that. I would like you to tell us, if possible, who is the individual or who are the people, or by what method, can we possibly establish a fair charge for those services?—A. I think the explanation of any charge must come from the company officials themselves because they are most intimately familiar with the nature of the services rendered.

Q. But are we prepared to accept them as the arbiters of their charges? I do not want to be in that position.

The CHAIRMAN: It is 1 o'clock. Perhaps we could leave that question.

Mr. CRESTOHL: We will let Mr. MacGregor think about it.

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Canada Banking and Commerce
Standing Committee on 1956

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956



STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 15

BILL 51

An Act to amend the Small Loans Act

THURSDAY, JULY 5, 1956

WITNESSES:

Mr. K. R. MacGregor, Superintendent of Insurance; Mr. Donald F. McClure, First Vice-president, Household Finance Corp. (U.S.A.)

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE
ON
BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

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|--------------------------|----------------------|------------------------|
| Argue | Hamilton (York West) | Richardson |
| Ashbourne | Hanna | Robichaud |
| Balcom | Henderson | Rouleau |
| Bell | Hollingworth | St. Laurent (Temis- |
| Benidickson | Huffman | couata) |
| Blackmore | Low | Stewart (Winnipeg |
| Cameron (Nanaimo) | MacEachen | North) |
| Carrick | Macnaughton | Thatcher |
| Crestohl | Matheson | Tucker |
| Deslieries | Michener | Valois |
| Enfield | Monteith | Viau |
| Eudes | Nickle | Vincent |
| Fairey | Pallett | Weaver |
| Fleming | Philpott | White (Hastings- |
| Follwell | Power (Quebec South) | Frontenac) |
| Fraser (St. John's East) | Quelch | White (Waterloo South) |
| Fulton | Rea | |
| Gour (Russell) | Regier | |

Eric H. Jones,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS,
WEDNESDAY, July 4, 1956.

Ordered,—That the name of Mr. Balcom be substituted for that of Mr. Lusby; and

That the name of Mr. Hamilton (*York West*) be substituted for that of Mr. Macdonnell; and

That the name of Mr. Rea be substituted for that of Mr. Fraser (*Peterborough*); and

That the name of Mr. White (*Hastings-Frontenac*) be substituted for that of Mr. Mitchell (*London*) on the said Committee.

Attest

LEON J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

THURSDAY, July 5, 1956.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Ashbourne, Balcom, Bell, Benidickson, Cameron (Nanaimo), Enfield, Eudes, Fairey, Fleming, Follwell, Fraser (St. John's East), Hanna, Henderson, Hunter, Macnaughton, Michener, Pallett, Philpott, Power (Quebec South), Quelch, Regier, Vincent and White (Hastings-Frontenac).

In attendance: Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance; and Mr. Donald F. McClure, First Vice-president, Household Finance Corp. (U.S.A.), and other representatives of certain Small Loans Companies and interested organizations.

On motion of Mr. Fleming, seconded by Mr. Michener,

Resolved,—That Mr. Monteith be substituted for Mr. Macdonnell (Greenwood) on the Sub-committee on Agenda and Procedure.

The Committee resumed its consideration of Bill 51, An Act to amend the Small Loans Act.

Mr. MacGregor was further questioned at length on a portion of his statement on the Small Loans Act which he had presented at the preceding meeting.

Mr. MacGregor being still before the Committee, Mr. McClure was called; he made a statement in regard to a certain annual payment by the Canadian subsidiary, Household Finance Corp. of Canada, to its parent company, Household Finance Corp. (U.S.A.); he was questioned thereon.

At 1.05 o'clock p.m., the Committee adjourned until 11.00 o'clock a.m. on Tuesday, July 10, 1956.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

THURSDAY, JULY 5, 1956,
11 A.M.

The CHAIRMAN: Gentlemen, there is a quorum.

We have a motion here by Mr. Fleming, seconded by Mr. Michener, that Mr. Monteith be substituted for Mr. Macdonnell on the subcommittee on agenda and procedure.

Those in favour? Contrary, if any?

Carried.

Mr. FOLLWELL: I presume that you are going to start where Mr. MacGregor left off?

The CHAIRMAN: Yes.

Mr. FOLLWELL: I have one point which I would like to have clarified. Mr. MacGregor made some comment with respect to the \$500,000 per year fee charged by the parent company of Household Finance to the Canadian company. I think it was suggested to the committee that this fee might be unnecessarily high.

Now, I was looking over the table 7 and I think that the members of the committee will recall that Mr. MacGregor suggested that the fee charged by the parent company of Household Finance might be considered unnecessarily high. In table 7, you will find, under the column "Other expenses except income tax and interest on borrowed money", that this table shows that the Household Finance Corporation has an expense ratio of 14.8 per cent against what seems to be an over-all average of 17.1 per cent—"all small loans companies, 17.1 per cent". Then also you will notice, for all the Money-lender companies, their other expenses seem to be an average of 32.8 per cent. I was just wondering if Mr. MacGregor would like to comment on that. It seems, on the basis of these figures, that he might agree that this supervisory fee permits an actual reduction in expenses rather than an increase in cost for the Canadian company. What would be your opinion on that, Mr. MacGregor?

Mr. K. R. MacGregor, Superintendent of Insurance, called:

The WITNESS: Perhaps I might make two main comments concerning the supervisory fee paid by Household Finance. The first is that the payment is not made for any specific goods or services, so to speak, for example, stationery or some particular service rendered; rather it is a payment for something of a much more indefinite and general nature. It is, in effect, a contribution toward the expenses at the upper level of the Household Finance Corporation organization as a whole, not only in the U.S.A. but in Canada also. It is the latter that interests us in the department especially because it results in the statement of the Canadian company reflecting not just the payments made by the Canadian company but rather in a sense, being a consolidated statement as a member of the H.F.C. organization as a whole since it includes a sharing of the upper expenses of the H.F.C. organization everywhere.

By Mr. Fairey:

Q. You mean by that that it could not be definitely tied to the expenses actually incurred in Canada?—A. Not actually incurred. The payment is for

something of a more indefinite nature than that; it is a contribution toward the know-how, skill, policy and direction given by the parent organization. The fact is that the Canadian company operates in a substantial way as a branch of the main organization rather than as a completely independent Canadian company. I referred at the last meeting to insurance companies; perhaps I might have amplified my comments at that meeting. We have 35 or 40 Canadian insurance companies that are wholly owned by external interests, either British or foreign. I am not aware of a single instance where any of those Canadian insurance companies pay any fee or contribute any specific amount to the parent for management, policy, know-how or anything of that kind. If, as a result, the profits of the Canadian company are a little larger then, of course, it is open to the parent to gain the advantage of those profits through dividends to the parent. This is the only case so far as companies supervised by our department are concerned where a fee is paid by a Canadian company to its parent company.

By Mr. Macnaughton:

Q. In this sort of small loans business?—A. Yes. Or in the fields of any of the companies supervised by the department.

Q. But outside of the small loans business and the insurance business, surely it is self-evident that the same practice is, generally speaking, a rather general practice which is followed by many industries; otherwise they would be duplicating in Canada the same set-up that they have at the head offices, and they would be increasing costs and expenses and decreasing profits?—A. I think there is a difference between the case of a Canadian branch of a foreign company and the case of a Canadian subsidiary of a parent company, because in most cases the subsidiary has its own top officers, board of directors, and so on, which does not obtain in the case of a branch of a foreign company.

Q. I was thinking of the installation, for example, of IBM machines. If you had to duplicate that in your Canadian branches when you have them at the head office I submit that the expenditure for this expensive equipment would be heavy?—A. That, of course, is a kind of expense which is of a more definite nature and I would see nothing wrong with any company paying for statistical service provided, whether it be by an independent company, parent company, or anyone else. This is something of a different nature.

By Mr. Follwell:

Q. Could this payment be for other than statistical services and could it be because of the fact that the parent company supplies the funds necessary, probably at a lower rate of interest than the rate at which they could borrow it elsewhere? This fee might cover definite advantages. This table would indicate that apparently for this fee Household Finance must get some very definite return, because they are able to cut their expense much lower than some of the other companies.

Mr. CAMERON (*Nanaimo*): Do you not think that one of the reasons why their expenses are lower is because Household Finance does four times as much business as its nearest competitor and that the overhead costs are thus proportionately less?

Mr. FOLLWELL: I think that my honourable friend will agree that it might be because of the increased efficiency, and the supervision and direction, which might be given for the fee to the company and that that might be one of the reasons why the expenses would be lower.

Mr. CAMERON (Nanaimo): I suppose that we will eventually have a witness from the Household Finance?

The CHAIRMAN: It strikes me that we are talking about a subject about which we do not know much.

Mr. Cawker, is there anybody here from Household Finance who could clear this up?

Mr. MICHENER: I think that we will get confused if we start chasing down individual points at this time. I think it would be much better to go ahead and finish with Mr. MacGregor.

The CHAIRMAN: I quite agree in principle, but there has been much made of this point and it might be better to clear it up now.

Mr. MICHENER: The whole question of cost of doing business is involved in this one point and it seems to me that we would be going into a pretty broad side issue.

The CHAIRMAN: I might agree in principle that we should go on with the main witness, but so much has been made of this one individual point that I think we should clear it up.

By Mr. Michener:

Q. Do I understand, Mr. MacGregor, that you say your opinion is that no fee should be paid? Am I right in that?—A. I might make one main comment. I should like to make it clear that this payment is involved in a pooling of the upper expenses of the Household Finance company organization rather than being a payment for some specific services rendered. It results from a pooling of the upper expenses of all of the members and subsidiaries of the H.F.C. organization. I think there are several reasons why the expense rate, as a whole, for H.F.C. is lower than for other lenders; its size is one, and experience and know-how undoubtedly are others. There is no disputing the fact, even taking this payment into account, that the expense rate for this company is lower than practically all others.

Q. I am not clear whether you are telling the committee that this payment should not be made at all or should not be as much. I would be glad if you would clear that up.

Mr. MACNAUGHTON: That is what I want to have cleared up also.

The WITNESS: I am far from enthusiastic about seeing any payment made by an independently constituted Canadian company towards something of indefinite nature resulting from a share of the expenses of the organization as a whole.

By Mr. Michener:

Q. Whatever its nature, this is a payment made and reported to you. Are you telling the committee that it should not be made or should be made in some lesser amount?—A. I would prefer that it be not made, or reduced to the very minimum, because it is payment for something of an indefinite nature involving expenses incurred by members of the parent organization wherever it operates.

Q. I take it then that your opinion is that this payment should not be made in all the circumstances as you know them?—A. I would prefer that it be not paid unless specific items can be pointed out for which it is paid.

Q. If there are, do you intend to qualify your answer by saying that some payment might be made?—A. I think that there can be no objection to any payment where one can identify the service or goods rendered. For example, it might be stationery supplied by the home office.

Q. Can you identify, in your office, the purpose of these payments?

Mr. CAMERON (*Nanaimo*): That is the point; he cannot identify them.

The WITNESS: I mentioned at the last meeting the main items of expense that are pooled for this purpose—

By Mr. Michener:

Q. You have information as to what the payments are being made for now?—A. They are being made to assess the Canadian company for more than its actual expenses incurred; for its actual expenses at the lower level and its prorata share of the total expenses at the upper level of the organization in the U.S.A. and in Canada.

Q. Then you tell the committee, in your opinion, that that payment should not be made? Is that the substance of what you are saying?—A. I think that is right.

Q. Yes. Then it follows that you are setting up your judgment as to the business practices that should be followed by this company in its relations with its parent?—A. I do not wish to be in the position of implying that I think the company should conduct its business in any particular way. It is an accounting matter, and whether the Canadian company's financial statement should reflect an adjustment which results from sharing the expenses of an international organization, is, I think, a question.

Q. I am just trying to understand your conception of your responsibility and duty as the licensing authority, because it seems to me on the one hand you might think it is your responsibility to regulate and control the business practices of the licensees—the ordinary business practices—and on the other hand that you might say that is not your concern. I have been puzzled by your comparison of the small loans companies with the insurance companies because it seems to me that they are two entirely different kinds of business operation and have no parallel except that both happen to be licensed in your office and under your jurisdiction. In the case of the insurance companies your concern is to protect the buyer of insurance to make sure that the company has the assets to pay him if the risk becomes a claim. In this case you are not protecting the borrower because he has the company's money already. The only question is whether the money will be returned. The protection which you can give is in the matter of business practices. Actually there is no risk to the borrower once he has borrowed the money.—A. No.

Q. So that your protection to him is of a different order from that given in the case of insurance companies.—A. I referred to insurance companies because we are familiar with their practices. We regard this as an accounting matter, and naturally we are familiar with the practices followed by insurance companies operating under our supervision. We have never sought to tell any company how to run its business; but if one desires to ascertain the financial results of a company's operations, whether an insurance company or a small loans company or other, I think you must have the fullest possible understanding as to whether every item of expenditure made by it is a justifiable expenditure or is made for a rather indefinite purpose. Naturally I think question will arise as to the value of services rendered for any expenditure and whether, as an accounting matter, it is properly reflected as a supervisory fee, designated as such, or as an adjustment to salaries, rents, advertising, and a dozen other items appearing in the financial statement of the Canadian company.

Q. But does it not all lead up to one result, that is rate of charge?—A. That is our main interest in this particular case; namely, to understand as best we can the profit earnings of every licensee and of course especially the largest operator.

Q. Yes. As licensing authority, your responsibility is to protect the borrowing public to make sure that they are not charged more than the law

permits and, as an incidental concern, as you are doing here in this case, to advocate a reduced rate on the basis that you consider that should be feasible and adequate having regard to the experience that these companies are having and the profits they are making. Now, I wonder if you would like to tell the committee—and I think this would be an appropriate time—whether you regard it to be your responsibility to exercise more jurisdiction over the companies than just to see that they do not make excessive charges, because it seems to me that there are two possible views of the function of the licensing authority and of this legislation. Your own view of the responsibilities, I think, is an important consideration, and the committee would like to have it fairly clear in its mind.—A. Well, I would certainly say that our main function is to ensure that borrowers are not charged rates higher than those permitted by the act; but I would also add that where a licensee is incorporated by special act of parliament and operates under the provisions of the Loan Companies Act, as well as the Small Loans Act, and where the department is publishing the full financial statement of the companies so constituted, we feel a responsibility to ensure that those financial statements reflect as accurately as possible the operations of those few Canadian companies so incorporated—there are only four of them.

Q. That is, that they must make accurate returns—and I do not disagree with that; but how much further do you think you should go? You mentioned earlier in your evidence that you felt it necessary to restrict certain licensees from borrowing by debenture which might be regarded as a responsibility of a securities commission or authority but not the responsibility of the licensing authority.—A. I think that that is not something which has been determined capriciously, so to speak, on our part; that is a prohibition included in the Small Loans Act applicable to small loans companies. We think, in administering the Small Loans Act, that it would be inconsistent if licensees otherwise incorporated followed practices, or were permitted to do things, that are specifically withheld or prohibited in the case of small loans companies, being companies incorporated by parliament. We are simply endeavouring to follow a consistent uniform policy with respect to all licensees rather than attempting to make new rules for all. We are following the policy as given us in the Small Loans Act itself but given there only in reference to companies incorporated by special act of parliament.

Q. Yes. That might be an answer; but, in any event, you do follow that policy and consider it your responsibility to do so.

There is one other question about which I would like to ask you which involves the interpretation of the authority that is given in this licensing act. Do you put on conditions? As a condition of licensing any applicant, have you prescribed conditions which are not in the act? For example, that certain loans shall not be made at more than a certain rate which is not as high as the legal rate?—A. We have, over the years, included two or three conditions in licences generally, not in reference to rates to which you refer. We have inserted conditions from the outset in reference to activities as an insurance agent, for example, prohibiting the licence from making a profit through commissions on insurance sold in connection with loans. We have inserted a condition, where it appeared likely that the licensee would operate in the province of Quebec, to the effect that if the licensee adopts the practice of using the sale and conditional resale, or sale with right of redemption technique in lieu of chattel mortgages—which are not allowed—that the rates involved in such sale and resale documents will be regarded as the charges made in the case of an ordinary loan. Another condition that we have included in licences—and it is the only other condition—relates to the charges that a licensee may make in the event of seizure of chattels. Those are the only conditions of a general nature. We have, of course, from time to time inserted

conditions in licences concerning the authority to make further loans. Sometimes the authority of a licensee is restricted to loans already on its books.

Q. Have you made it a condition that only a certain rate, being less than the legal rate, be charged in respect to any class of business?—A. Never. I would say, in this particular instance, we have never felt it open to us to strike out the item from the statement of the H.F.C. or to tell the company that they cannot make it or should not make it. We have discussed the item with them several times and I think they are aware of our view that we would like to see it reduced to the minimum.

Q. The words of the licensing provisions of the Small Loans Act give some basis to your supervision of the operations of the company because licences are granted according to section 5, subsection (2), on the basis of efficiency, honesty and fairness to borrowers. I would interpret that as efficiency in general terms for the 73 licensees here; and if they are observing the law in not charging an illegal rate, or generally carrying on their business—efficiency, and are not dishonest, and carrying on their business—which I think is of great importance—with fairness to borrowers, then it seems to me that the details of their day-to-day operations, including such things as inter-company relationships, would be beyond supervision in practice in the case of so many companies, and you would have to judge them more by their results than by the details of their operations. Am I stating the problem correctly? Perhaps you would comment on that view?—A. First, I should make it clear that the licences are granted by the minister. Where I have used the expression “we” I did not mean to imply that the department issues the licences; they are issued by the minister.

Q. I take it that he does not grant licences except on your advice.—A. Secondly, I do not think that the lenders themselves feel that we have plagued or nagged them about inconsequential things. Frankly, we have not the time to do that even if we were so disposed. But I think it is entirely reasonable, in the administration of the act, that we should at least discuss with licensees some items of relatively large magnitude, or some practice that the licensees may be following which we think is rather unusual. That is what we really have done in this instance.

Q. Would you illustrate about how frequently these discussions are held and how many licensees are involved? That would perhaps give us an idea if the supervision of the actual conditions of the business of the licensees becomes a responsibility of your office?—A. Under the act, the superintendent, or some member of the examination staff, is required to visit at least once every year the chief place of business of the licensee. In practice, our examiners, when they are in different parts of the country on other business, for example, examining insurance companies and loan and trust companies, go into the branch office of the licensees in those particular localities and check the charges and practices that the licensee is following in that locality. After every examination a report is made to the superintendent; sometimes there are no items that are worthy of discussion with the licensee at all. In most instances, however, there is some point, or there are a few points, that are taken up with the licensee—perhaps overcharges or undercharges. If I may, I would retract that statement because the overcharges are incidental and few; I would not mention them as though it is a general practice because it is not. But all through the year we may be in correspondence with the head office of a licensee about several different matters; it might be advertising or some item in their financial statement.

Q. Have you found the licensees generally cooperative with respect to the suggestions that you and your inspectors have made?—A. Yes, we have.

Q. Have you had to suspend or cancel any licensee for infringement or for practices which you felt disqualified it from holding a licence?—A. Yes, but not often. In the early days of the act some prosecutions were necessary both with respect to unlicensed lenders and, in at least one case, of a licensed lender.

Q. But they generally comply with the requirements of your office?—A. Yes. Our relations are quite harmonious and we have no complaint about their cooperation at all. I think that every licensee is almost as interested as we are in improving conditions.

Q. The reason that we are here is that some think they are doing business on the basis of a profit which would permit a reduction of the maximum rate and still leave an adequate balance?—A. More particularly in the field of loans above \$500.

Q. I was interested last week to hear you say that you really had no emphatic recommendation to make with respect to the loans up to \$500.—A. This bill does provide for a slight reduction in the rate applicable to loans under \$500; but the main effect would be in reference to loans above \$500.

Q. Thank you.

By Mr. Cameron (Nanaimo):

Q. I take it, Mr. MacGregor, that you would be consulted, and in fact your advice would be sought, by the minister if it was contemplated to make some changes in the act such as the changes which we are considering now, and that your advice as to a possible change of interest rates would be sought?—A. I think that is reasonable, Mr. Cameron.

Q. In order to give the best advice you could you would feel that you had to have a very clear picture of the actual profit situation of these companies, would you not?—A. Yes.

Q. Did I understand you correctly when you spoke of that \$500,000 paid by the Household Finance to its parent company as going into a pool for, I think you said, the higher brackets?—A. Upper expenses.

Q. Some higher expenses. Would I be right in assuming by that that you meant that it went into a pool for possibly, salaries and bonuses for the higher bracket of executives in the parent company?—A. The expenses that I referred to at the last meeting, which are pooled, are salaries, accounting fees and expenses, conference fees, directors' fees and expenses, fees of registrars, postage and express, rent, telephone and telegraph, travel, and some others. The practice followed is for the expenses of this nature to be pooled by the parent, the various branches, and subsidiaries of the parent, all being included in the pool. Then a share is assessed against the Canadian subsidiaries in the proportion that the net income of the Canadian subsidiaries bears to the total net income of the organization as a whole. That effects a subdivision of these pooled expenses between Canada and the U.S.A. When the share is assessed against the Canadian subsidiaries it is subdivided again between H.F.C. of Canada, the licensee, and H.F.C. Limited, the unlicensed company, on the basis of 50 per cent in proportion to the average number of accounts outstanding during the year, and 50 per cent in proportion to the average amounts or balances outstanding during the year.

Now, having reached that point, namely, the share of these upper expenses, so to speak, that should be borne by the Canadian subsidiaries, the practice is to subtract from that share the payments under these heads that were actually made by the Canadian subsidiaries and the difference represents the supervising fee which is paid over to the parent and appears in the financial statement of the Canadian subsidiary by way of adjustment to these various items of expenditure.

Q. Now, Mr. MacGregor, what is the legal position of the parent company with respect to the Canadian company? Is it any other position than that of a shareholder?—A. Legally I suppose not.

Q. It is merely a shareholder, is it not?—A. I should think so, legally.

Q. And as a shareholder it is entitled merely to the profits made by the company it owns in the same way you and I would be entitled, for instance, if the American company was one shareholder and you and I were two other shareholders, to our share of the profits made by them; but neither of us would be able to go to the company and say, "Before you liquidate your profits, allow a certain allowance for the expenses of my car and other expenses". That is what the company is in effect doing.

Mr. MACNAUGHTON: The witness said that he did not know.

By Mr. Cameron (Nanaimo):

Q. He did; he answered. You were not listening, Mr. Macnaughton; sometimes you do not, you know. Let us clear up that point. In your opinion, the position of the parent company is legally and solely that of a shareholder?—A. I am not a lawyer, but I think the main relationship between the two is that of a shareholder.

Q. Yes. Now, that being the case, then what justification can there be for paying to that shareholder anything except his share of the profits?—A. I should prefer to leave that to the lawyers.

The CHAIRMAN: As a lawyer, I am prepared to tell you that you are talking through your hat.

Mr. CAMERON (Nanaimo): Good. Tell me how.

The CHAIRMAN: Because any subsidiary company is entitled to make whatever payment is recognized for tax purposes by the income tax department for whatever services they feel they are paying for; it is quite legal to do it. When you speak about the illegality of it, you are talking through your hat.

Mr. CAMERON (Nanaimo): I was suggesting that there is only one legal position with respect to the parent company and that is of a shareholder in the wholly-owned company. I suggest that you examine the practices of such wholly-owned Canadian companies and you will find that the legal position of the parent company as a shareholder in the subsidiary company is very carefully maintained all the way through; that is its only position. I suggest that this is something which certainly should be examined. I intend to raise this when the Department of National Revenue estimates come up.

Mr. PHILPOTT: That is what we are doing.

Mr. HANNA: Mr. Chairman, we started this discussion on Tuesday and have gone into it fully today. I like your suggestion that perhaps we should hear some representative from the company, because this is an isolated case. Apparently it applies to only one company. I would hope that the committee would agree, while we are on this item, now or later, to hear a representative of this company and perhaps his explanations might help us in our understanding.

The CHAIRMAN: Mr. MacGregor has asked to be allowed to correct one point.

The WITNESS: In answer to the question which Mr. Cameron asked about the procedure followed in pooling these expenses, I mentioned various items of expenditure that are pooled. I should have made clear that the whole of each of these items is not pooled in every case; in some instances the whole is pooled, but in other cases only 50 per cent or some other percentage.

By Mr. Henderson:

Q. Mr. MacGregor, did you recognize this \$500,000 paid as an expense?—A. It is reflected as an expense in the financial statement of the company.

Q. And the financial statement as far as your branch is concerned has been proved. I do not agree with our friend's suggestion that the shareholder of any company should be barred from receiving funds from another company when those funds are repayment of expenses. Is that not a correct premise?

—A. That strikes at the root of the question. What kind of expenses are they? It is a sharing of the general expenses of the organization as a whole, both in Canada and in the U.S.A.

Q. Anyway they are listed as expenses and proven as expenses. Have your inspectors sufficient authority to go into these companies' books and allocate what this \$500,000 is charged against? It may be an executive account or rental account all the way along. Are your inspectors able to allocate that \$500,000 to different subheadings and expenses?—A. The question of whether we should allocate it really does not arise. The company itself in filing the statement allocates the payment.

Q. Undoubtedly it would cause some concern in your inspectors' minds. Have they the authority to go to see how that \$500,000 is split up as to rent, advertising and so on?—A. That information is all available to our examiners when they visit the office of the company, but we have it in Ottawa anyway because the auditor's statement reflects it.

Q. Would your inspectors go and inspect what this \$500,000 was allocated to in the company's books and ask them to produce it?—A. It is really not necessary for the examiner to do so because we know it is an accounting procedure determined by formula by the parent and we can sit down in the department, or in this room and go through the arithmetic, if we are given the items of expense that are included in the pooling.

Q. What I am concerned about is that in your reply to Mr. Michener you stated that Household Finance is an independently constituted company. I would not want that to get confused with an independently constituted company in this country, and therefore we have the right to know how this \$500,000 has been divided in the company's books. Since this is the only company that has been paying \$500,000 to the United States, I would have thought that in your own mind, and in your inspectors' minds, you would raise the question as to just where they allocated those in the expenses of the Canadian company.—A. It is distributed amongst these dozen or twenty heads that I have mentioned—salaries, directors' fees, rent, telephone, telegraph, and so on.

Q. But your inspectors would inspect that down the line to see it was allocated to different expenses of the company's operation? Is that correct?—A. In the normal course of preparing the statement the company itself shows it.

Q. Did they do it in this case? This is the only case where money was paid to the United States, and I assume the question would be raised in your branch as to why. What I want to know, in this case, is did your inspectors satisfy themselves, on the company's books, that this \$500,000 was properly allocated to different subheadings or expenses of the Household Finance company generally?—A. Yes. It has been allocated in accordance with a formula determined by the company itself. As far as the examiners are concerned, frankly I do not think that they have been worrying their heads too much about this item because it has been going on for twenty-five years and has been a matter of some discussion between the department in Ottawa and the company.

Q. As far as this \$500,000 paid to the parent company in the United States is concerned, are there any other expenses that go there besides dividends?—A. To the parent?

Q. Yes.—A. Only interest on borrowed money.

Q. Interest and possibly dividends if there are any?—A. Yes.

Q. Is there some advertising expense from the American company which is charged back as an expense item to the Canadian company?—A. Advertising is one of the items that is pooled under the heading “publications and publicity”, so that the expenditure reflected in the statement of the Canadian company would be its pro rata share, so to speak, of the advertising costs of the organization as a whole, both in the United States and in Canada.

Q. I mention that because, living on the border area of the United States, I know there is a lot of advertising which comes across the border and a lot of it which goes over there. I was wondering if there is any separate advertising account which the parent company is charging under another account to the Canadian company?—A. Simply as one of the ingredients in the expenses pooled.

Q. Now, there was something which you mentioned to Mr. Michener in talking about your control over the seizure of chattels. I would like to know, under that seizure, when a truck is seized under a loan and that truck is filled with goods belonging to a third party, if it is proper that those goods should be seized along with the truck, and the third party then deprived of the goods?—A. Frankly I do not know what the legal position of the licensee would be in attempting to seize both the truck, which presumably formed the security for the loan, and some goods which are being transported in the truck; but I can say this, that the number of seizure in practice is extremely small and in the case of Household Finance Corporation the largest operator, I think last year there was only one seizure of chattels.

By Mr. Henderson:

Q. Just what would happen in a case like that?—A. I do not recall that we have ever had to deal with it; I do not think we would be called upon to take any action.

The CHAIRMAN: Are you not getting astray? You are asking for a legal opinion from somebody who is not a lawyer. Would not his attitude at the time be governed by such legal advice as he obtained, probably from the Department of Justice? I think we are getting a little astray there.

By Mr. Fraser (St. John's East):

Q. I would like to ask if the formula laid down by the parent company has been changed at all in the allocation of the expenditure?—A. It was changed in 1954 after some discussion between the department and the company. The main effect of that change was to eliminate some of the intermediate salaries that were previously pooled but which since 1954 have been excluded; consequently the effect was to reduce to some extent the burden of this supervising fee. However I may say that even that question is still one which is under discussion between the department and the company because the old formula is still being followed in the sense that the extra amount or the difference in amount between the two formulae is still being reflected in the profit and loss account of the company. It is not being reflected in the regular expenditures of the Canadian company but apparently the Canadian company is still expected to pay the parent on the basis of the old formula. As I say, that matter is still under discussion.

Q. But when it is brought into effect actually it will have the result of reducing the contribution of the Canadian company?—A. That has been our understanding of the effect and the intent of the change ever since 1954.

Q. What would be the total amount of the pool?—A. I can only give you readily, Mr. Fraser, the figures for 1953 which was the last complete year prior

to the discussion I referred to; the total pool for 1953—perhaps I should give you first the amount of the pool on the basis of the formula followed prior to 1954; the pool on the old basis amounted to \$4,227,000; the Canadian share—that would be not only for the licensed company but for the unlicensed company also—amounted to \$1,241,000.

The Canadian companies actually paid directly the amount of \$734,000 and the difference between the latter two figures, that is, the Canadian companies share and the amount actually paid by the Canadian companies was \$508,000 and after adjustment for the rate of exchange prevailing at that time it was \$499,678, being the supervisory fee for both companies, the licensed company and the unlicensed company.

On the basis of the new formula the total pool was \$2,103,000, and the Canadian companies' share was \$618,000; but the actual amount paid by the Canadian companies was \$234,000, the difference representing the supervisory fee being \$384,000 and after adjustment for exchange, \$378,000.

Q. Thank you.

The CHAIRMAN: In view of the fact that such an issue has been made of this point I rule that we make an exception in this case and ask Mr. Cawker—or whoever is here representing Household Finance—to explain this matter and let us get through with it and then go on with Mr. MacGregor.

By Mr. Macnughton:

Q. May I ask this question along the same line: I am trying to be as fair as possible to Mr. MacGregor, but I am disturbed by his statement on page 26 about the supervisory fee which Mr. Michener discussed at some length, because it is a matter of great principle in that it effects not only Household Finance Corporation—and I know nothing about Household Finance Corporation—but it also affects companies generally. You said that in your opinion—if I am right—Household Finance Corporation was a well run company and that its rates were fair.—A. I do not think I used the latter words "that its rates were fair".

Q. You said it was one of the large companies and that in your opinion it was well run; and then you go on to object about the supervisory fee; and on page 26 you said also, I think, that it was paid or formed part of a general sharing of general expenses, and that means that the money was paid for services rendered. If you did not object to their paying for these services—I mean, if they did not let these services for which they pay, they would have to set up means of performing those services here and it would cost money, and perhaps a great deal more in the long run.—A. That is an uncertain question.

Q. But we do not know. My question is how far should your department go into the internal operations, policy and management of business generally?—A. We simply go as far as we can to ensure that the financial statements of companies operating under our supervision accurately reflect the operations of the companies, and if we encounter an item of an indefinite nature, naturally we discuss it and try to ascertain its true nature. That is all we have done here.

Q. I agree with you; but where you are dealing with questions of management—you acknowledged that this company was being run efficiently; but you say to them "You should not do it that way." Is that the function of your department? Have you got the practical experience or have you men with practical experience to go in and tell management that they are making a mistake and that it should be done in some other way?—A. I think it is simply a question of accounting. I would not stress the idea of objecting to the payment so much as I would stress our desire to ascertain what it is for, and the fact that rightly or wrongly it results in the financial statement of

the Canadian companies reflecting not just the expenditures made by it, but results in a kind of blended or consolidated statement involving expenditures made by the organization as a whole in other countries where we know nothing whatsoever about the justification for the salaries or other items of expenditure that may be made there.

Q. I agree that you are entitled to have a reasonable explanation; but if I were operating a business; and if that business were efficiently operated, as the results would prove, I do not know if I would like it too much or would be too much in favour of governmental authority coming in and telling me that my business practice and operations were wrong and that I should change my methods of paying my executive set-up.—A. In our work the last thing we have in mind is any intention to meddle with a company's internal affairs, but I do believe I would be subject to criticism by this committee if, as a matter of general practice, every licensee were owned by a parent either in Canada or elsewhere, and with whom we have no official connection, and if in every case the licensee made a lump sum payment or a large payment ostensibly for something or other and we made no effort to ascertain what it was for. If we were in that position it would be almost impossible to determine the true profit of the licensee or to form an opinion whether the maximum rates were appropriate or not.

The CHAIRMAN: I think we may rest assured—

Mr. MACNAUGHTON: I think that is reasonable.

Mr. CAMERON (*Nanaimo*): I think we should hear someone from the company. At no time did Mr. MacGregor suggest that he wished to interfere with management, and at no time did he suggest that the company should change its practice in the way it paid its management.

Mr. MACNAUGHTON: Are you saying that, or is Mr. MacGregor saying it?

Mr. CAMERON (*Nanaimo*): Mr. MacGregor did not say it. You are putting those words into his mouth.

Mr. MACNAUGHTON: I am not putting words into Mr. MacGregor's mouth. Here we have a superintendent and a very good one, and I want to know just how far this superintendent or any superintendent can go into the internal affairs of a business, once you prove that it is successful in its operations, and providing that it conforms to the law. Where do we stop?

The CHAIRMAN: I think we may rest assured that if Mr. MacGregor did not go into the question of how this sum was made up, the Department of National Revenue would very definitely go into it. I suggest to Mr. MacGregor that he go on and clear up this point for us so that we may proceed with his statement.

By Mr. Follwell:

Q. Is this committee to assume that your entire criticism of this amount paid as a supervisory fee to the parent company is a matter of your criticism of their accounting formula?—A. We have expressed our views to the company, but we have not imposed them.

Q. No, I think that is the point, or the crux of the matter. It is a matter of the way in which this company carries out its accounting formula, and if they allocate this \$500,000 to a certain item of expenditure, you would have no criticism. Am I right?

Mr. CAMERON (*Nanaimo*): Providing it was legitimate.

The WITNESS: I would have to qualify my answer because they did distribute this item to various items of expenditure.

By Mr. Follwell:

Q. You are not criticising their accounting formula?—A. No. What worries me is the fact that the statement of the Canadian company reflects a sharing of expenses, including those incurred in the United States, and whether the share is justified as an expense or not is, I think, a question.

The CHAIRMAN: Let us try to find out from an officer of the company. Have they an official here?

Mr. C. M. CAWKER (*President, Canadian Consumer Loan Association*): Mr. D. F. McClure, first vice-president of Household Finance Corporation (U.S.A.), and vice president and secretary of the Canadian licensee is here and I am quite sure he would be most happy to give evidence on this matter.

The CHAIRMAN: Very well; will Mr. McClure please come forward and explain to the committee how this sum is made up?

Mr. Donald F. McClure, (*First Vice-President, Household Finance Corp. (U.S.A.)*), called:

The WITNESS: Mr. Chairman, my name is Donald F. McClure and I am one of the officers of Household Finance Corporation of Chicago as well as a director of the Canadian company.

My home is in Chicago. Should I identify myself any more than that?

The CHAIRMAN: I think that is sufficient, unless any member of the committee wishes to have further identification.

The WITNESS: Having sat through the hearings for the last two sessions, and, having a very great interest in this point, I have made a few notes in an endeavour to be as helpful as I can on what, we must all agree, is not an easy concept to grasp.

In the operation of any enterprise which involves branch offices, and those branch offices straddle various jurisdictions, there are certain specialized functions which can be performed at headquarters for the benefit of the several operating units at a saving in expense as compared with duplicating those functions at the several branches, and it is this which gives rise to the need to allocate to the branches such headquarters disbursements so that the true cost of the product or the service at the branch level can be known.

This allocation must be based upon actual disbursements rather than upon estimates, and it should be arrived at on the basis of a fair method.

The company involved of course is primarily interested in the correctness of this allocation, because otherwise an inefficient operating unit might be unjustly subsidized; and the income tax authorities have an interest to make certain that the expenditures allocated are properly deductible for tax purposes; and in the case of lending organizations, the rate-making bodies have an interest to protect the borrowers against unjustified expenditures.

Now, I shall give you a little background very briefly, so you may have a proper perspective. During 1955 Household had outstanding on the average throughout the year—and I am giving you consolidated figures which include both Canada and the United States, and those figures are expressed in terms of United States dollars—Household had outstanding throughout that year \$406 million of customer notes receivable on which its gross income was approximately \$97 million.

Operating expenses, which excluded income tax and interest, amounted to \$49,900,000 or a little more than 51 per cent of the gross income.

Of these operating expenses \$42,900,000 or 86 per cent, were dispersed at the branch office level, and \$6,977,000, or 14 per cent, were dispersed at the headquarters offices in Canada and the United States.

Most of these Canadian and United States headquarters expenses related directly and clearly to the operations either in Canada or the United States, and no allocation was necessary as between the two countries; but there is a residue of general management disbursements which are subject to allocation between the two companies because they are not easily tagged as solely for the one or the other country.

Now, the Canadian income tax people have very definite ideas as to how this tagging should be done. The formula which they have used for a number of years is backed by good reasoning, and the companies' book entries reflect the income tax formula. Applying the income tax formula to these general management expenses, subject to allocation, showed us early in 1956 that \$725,000 of the United States disbursements of 1955 were allocatable to Household's two Canadian operating companies; they were divided between the two Canadian operating companies in this manner: \$421,000 to Household Finance of Canada which was the small loan licensee, and \$304,000 to Household Finance Corporation Limited, which makes a total of \$725,000.

This amount allocated by the two Canadian companies in 1955 was equivalent to 6/10th of one per cent per annum on \$121,957,000, the average amount of customer notes outstanding in Canada alone. Our total here, i.e., in Canada, is a combination of what the licensee has, customers receivables of about \$52 million or \$53 million, and what Household Finance Limited has—at the end of the year in the neighbourhood of \$91 million. The average was \$121,957,000 throughout the year.

If you could eliminate these disbursements of \$725,000—in our judgment it could not be done, but if you could—it would reduce the rate charged to borrowers by 5/100ths of one per cent per month.

Now, the Superintendent of Insurance has different ideas as to the allocation of these expenditures, and the company finds itself in the uncomfortable position of having to serve two masters. The companies evidence that the Canadian operation was less expensive because of the functions performed for it in the United States was met with the doctrine that the need for any function to be performed for Canadian subsidiaries in the United States should disappear, to the end that the Canadian companies eventually stand on their own feet.

After discussion, no objection was offered to our using a somewhat different formula which produced a smaller sum allocated to the Canadian corporations. We know that the revised formula would understate the Canadian companies' true expenditures, and correspondingly it would overstate their real earnings, but it seemed clear that we had lost the argument in connection with our report to the Superintendent of Insurance.

Application of the revised formula to the general management expenses subject to allocation for 1955, showed that 485,000 of the United States disbursements were applicable to Household's two Canadian companies. This was divided between the two companies as follows: \$281,000 to Household Finance Corp. of Canada and \$204,000 to Household Finance Limited. The total is \$485,000. This has been called a supervisory fee; it is not a supervisory fee in the usual acceptance of that word, but rather a reimbursement for the cost of functions performed for the subsidiary by the parent.

It was reported at the last session here that the total of approximately \$500,000, which is actually \$485,000, was applicable only to Household Finance of Canada, and this is of course incorrect. Only \$281,000 was allocated to Household Finance of Canada. It was this sum of \$281,000 which was included in the operating expenses of that company in its report to the Superintendent of Insurance. The \$140,000 difference between that allocation—the \$281,000

and the \$421,000 which was on the books for income tax purposes—had to be recorded some place, and was recorded as a reduction after tax adjustment in the earned surplus account of Household Finance of Canada. Thus, the income statement of the licensee appeared slightly higher than it otherwise would, a fact which may give some comfort to those who are interested in a rate reduction.

So much for the facts. Now we come to the real heart of the question which is what are the services that the Canadian operation received for the allocation of \$485,000 or \$725,000, whichever one of those figures you prefer to discuss. The answer is it received those services which can best be performed in one place rather than in two—and let me enumerate.

We have, in Chicago, a personnel department. The hiring and the training of new personnel is a vital function, particularly for this business, as the lending business cannot operate without men or money, and sometimes I believe that the man problem is the most acute. The technique of selecting qualified employees from applicants for the job, and for training such people after they have been hired, is a professional matter. Canadian employees are hired and trained in Canada by Canadian personnel, but the techniques and the training material have been developed and are constantly being improved in Chicago where the work began. It would be an unnecessary expense to duplicate this work in Canada since a training tool, once perfected, is as effective in Ottawa as it is in Detroit.

Then there is the consumer education department. Household has been a leader, we believe, in producing pamphlets and guidance material for helping consumers budget their incomes and to become better managers of their finances. The preparation of this material requires a small staff of home economists. As the Canadian business developed, it was believed—wrongly as we later discovered—that this material should be revised by Canadians for Canadians. For a time we partially duplicated the department in Toronto. Experience showed that this duplication was unnecessary and costly. The two departments are now merged in Chicago. Minor changes in the material made the same pamphlets and material equally acceptable on both sides of the border.

We have a research department. The statistics, which compare the operating results of Household's 770 branch offices and 75 supervisory units, are prepared by a group of statisticians in Chicago. The compiling of these figures is greatly facilitated by a battery of IBM machines. It would be uneconomical to duplicate this department in Canada as its general output reaches the Canadian supervisory and general management staff as promptly as it reaches comparable staff people in the United States. This material forms the basis for intramural reports. In fact, it comes close to providing the driving power of our organization.

Do not confuse this statistical material with the books of accounting. All Canadian books of accounting and bookkeeping are in Canada.

Finally, and most important, is what we can call, for lack of a better term, the financial department, although we have no such department in the formal sense. Under this heading I will group all functions which involve the securing of funds which the company must have to operate. Now, this is a large and growing task,—quite so within the United States and even more so here in Canada. Household's Canadian customer notes receivable increased \$13 million in 1953, \$17½ million in 1954, and \$33,400,000 in 1955.

Mr. MacGregor has told you some of the difficulties which small loans companies and money lenders have in trying to raise funds in Canada. In truth it is impossible to obtain, in Canada, the amounts needed to finance such growth as Household has had in recent years. Every effort is made to enable the Canadian subsidiaries to stand on their own feet. From the point

of view of lending operations they are independent; but from the point of view of finances, the Canadian subsidiaries are dependent upon the American money market. At the present time no useful purpose whatever would be served in establishing an office of a financial vice-president in Toronto.

Now, what is the significance of the cost, the untagged aggregate cost, of these services part of which is allocated to the Canadian operation? At the end of 1955, the Canadian companies were employing \$147 million in their business of which \$115,800,000 was borrowed from the parent. If you relate the \$485,000 allocation to the \$115,800,000 total advances which the parent had made to the Canadian companies by the end of 1955, you see that it amounts to about $\frac{2}{3}$ of 1 per cent per annum; if you relate the \$725,000 allocation to the \$115,800,000 advance of the parent to the Canadian subsidiaries, it amounts to slightly more than $\frac{2}{3}$ of 1 per cent per annum. These fractions measure the Canadian companies share in 1955 of the salary, travel, telephone, postage, legal and miscellaneous expenses of the staff which performed the services enumerated, and produced \$115,800,000 of borrowed money for the Canadian operation at an average interest cost of $4\frac{1}{2}$ per cent per annum.

As long as the Canadian business stands in need of large amounts of capital, and as long as it is substantially less expensive to perform certain professional functions in one office rather than in two, the disbursements of the United States headquarters are bound to exceed by a substantial amount the disbursements of the Canadian headquarters for purely general management functions. This, in turn, will require a fair allocation of such disbursements between the Canadian companies and their parent.

The purpose of the division of these functions and the corollary of the necessary allocation is to provide a cash lending service at the lowest cost to the Canadian borrowers.

That statement may perhaps be more general than you wish. If you have questions which you wish to ask, I will try to answer them.

The CHAIRMAN: Before questions are put to Mr. McClure, I do not know whether he will be a witness later for the Canadian Consumer Loan Association, but I would ask you to restrict your questions, at least reasonably, to the point under discussion.

By Mr. Fleming:

Q. Mr. McClure, how many companies are there in the United States under the ownership and control of the Household Finance group?—A. If I were to say it was perhaps in the neighbourhood of 120, I do not think that would be in response to your question. We have in the United States in the neighbourhood of 575 branch offices, and I would say that of that 575 about 120 of them are separate corporations wholly-owned by the parent, and the balance are owned by the parent holding company.

Q. These corporations operate under various jurisdictions?—A. Thirty-six states.

Q. And do you have the similar problem of allocation or distribution of this form of overhead costs as among the various state jurisdictions in the United States?—A. Yes, sir.

Q. Would you make your comment specifically on the point raised by Mr. MacGregor? Mr. MacGregor's point was that the Canadian corporation—and I take it this would apply to both Canadian corporations—should not be operated in the same way as branches of a proprietary company. Would you make your comment specifically on that point, please, and relate it to this matter of allocation of cost distribution?—A. There is a difference, of course, between a branch and a headquarters. The purpose of a headquarters branch is to perform centralized functions which can be more economically performed than could be done if you duplicated that process in the various branches.

When you have a large Canadian business, such as we have here, you must have a Canadian corporation, and it needs a Canadian headquarters, and it in turn has its branches.

The Canadian headquarters should be encouraged to be as independent as it economically can. And, as I have stated, we believe that our Canadian operation, which is managed from the Toronto headquarters, from a lending point of view is completely independent; but there are certain functions which for the Canadian headquarters still are either uneconomic because of the relationship between the two companies, or impossible for them to do. These are the functions which I enumerated. One reason why the cost is less is because of the historic fact that the parent already existed at the time the Canadian subsidiary was established and we continue to perform those functions in the United States and since it is a larger operation than in Canada we allowed that function to spill over to the Canadian operation.

The main thing which takes the largest bite out of this allocation is the financial one. For the Canadian operation to have assembled an aggregate of \$147 million—which was the total by the end of the year—most of which has grown up since the termination of World War II, would have required the Canadian headquarters staff to spend a great deal of its time in the United States to acquire that money.

Q. On this matter of the independence of the Canadian operation, or relative independence, how do you compare the extent of the independence of the operations of the two Canadian companies on the one hand, with the extent of independence enjoyed in operation by the subsidiary companies operating in the United States, all in relation to your headquarters?—A. Well, the subsidiary companies in the United States have no economic independence, or in fact no real independence.

Q. Then I may take it that the relationship between your headquarters establishment and the Canadian operation is a quite different relationship from that existing between the headquarters and the various American subsidiary companies?—A. There is no question about that.

Q. What is the trend of growth at the present time as far as the Canadian operation is concerned? Is it towards an enlargement of the independence of operation?—A. Yes, it is; except that at the present time you could not believe that there is any increase in the financial independence of the Canadian company because in this past year there have been restrictions in the ability to get money in Canada, and that in the very face of a growing need. That has made the Canadian headquarters even more dependent, from the financial point of view, on the American market.

Q. I was thinking rather of the corporate relationship, and the method or the extent of the freedom exercised here in extending functions of the kind embraced in the formula, either present or previous formulae?—A. Yes. The functions are growing; the independence of the Canadian headquarters is growing and more and more money is being spent and disbursed by the Canadian headquarters itself. If they did not do as much of their own business as they do, we would have to do more in the United States and the actual allocation to Canada would be even larger.

Q. The revision of the formula made in 1954 then does represent an extension of the independent functions of the Canadian company in relation to the American headquarters?—A. No. I am afraid I cannot agree that that is true. The revision which was a result of a discussion which the company had with the Superintendent of Insurance did not alter the facts of the case. It simply altered the amount which the company charged to the income statement of the Canadian operation.

By Mr. Benidickson:

Q. Was that 1954 or 1955?—A. I think Mr. MacGregor said that he thought the revision was in 1954. I really do not remember. I know the revised formula was used in 1955 and may have been used in 1954.

By Mr. Fleming:

Q. Has the formula been approved by the Department of National Revenue of Canada?—A. Not the revised formula. We are using a formula which was laid down by the Canadian revenue people and it is that which is reflected in the books of account.

Q. Are you distinguishing between the formula that you now mention and the formula that Mr. MacGregor described?—A. Yes.

Q. Would you clarify this, because I gathered from Mr. MacGregor's statement in that respect that there had been a formula which provided for the distribution, or allocation, of a broad range of expenses that are called headquarters expenses, that there had been a revision of that formula in 1954, and that the effect of the revision had been a contraction of the headquarters expenses so far as Canada was concerned to the local operation?—A. That is correct.

Q. Are you telling me about a different formula?—A. No. I am talking about the same one.

Q. I wanted to relate the one approved by the Canadian Department of National Revenue to the formula which Mr. MacGregor described here?—A. The formula which we use in connection with the Department of National Revenue has not changed for a number of years. We are still using the same one.

Now, at the urging of the Superintendent of Insurance, in making our reports to the Department of Insurance we revised the allocation of expenses which had been disbursed in Chicago and which were chargeable to the Canadian operation; we used a formula which produced a smaller sum, and the difference between the two sums, as far as the total is concerned is that in 1955 on the income tax basis, it produced an allocation of \$725,000 roughly, and in our reports to the Department of Insurance it produced an allocation of about \$485,000. There is the difference.

Q. Has this question of the formula, or the difference now appearing in the formulae, used for tax purposes on the one hand and for reporting purposes to Mr. MacGregor's department on the other, come to the knowledge of the Department of National Revenue?—A. I do not know.

Q. Perhaps it would be interesting to find that out. The other point has to do with the ratio of operating expenses of your company as compared with those of the other three small loans companies. On table 7—which was referred to earlier this morning—there is a table, in the fourth column, headed "Other expenses except income tax and interest on borrowed money". May I ask here if the expense covered by the formula about which you were talking appears under this column?—A. It does.

Q. This indicates that in comparison with the three other small loans companies, in the year 1952, you have the lowest ratio of expense among the four companies; in 1953 you have the lowest ratio of expense; and in 1954 you have the second lowest ratio of expense; and in 1955 the lowest ratio of expense. So, for the four years, among the four companies, you had the lowest ratio of expense over-all. Now, a question has been raised this morning as to the extent to which the payments made under the formula, or the way in which your company carries on the sharing of certain headquarters or supervisory functions with the Canadian subsidiary companies, have entered into this result of a lower operating expense ratio. Would you enlarge on that subject to the committee and tell us to what extent you think that this form of

management has contributed to your relatively low operating ratio expense record?—A. There is no question in our mind that we believe that whatever our operating results show—and we think they are fairly good—it is due to a tight control of expenses and doing the job in the most economical way that it can be done. We firmly believe that these functions, which are done in Chicago, produce a much lower operating total expense for the Canadian operation. If we did not, we would establish a department here to do the job.

I do not want to say that the mere fact that we spent either \$485,000 or \$725,000—whichever figure you want; it really is \$725,000—in the United States for the benefit of Canada is the only one which produced a favourable report; but that is a contributing reason and is the reason we will stubbornly defend that practice.

Q. Those are all the questions which I have if Mr. McClure could give us some further information about the relationship of the tax question to the formula, which might be helpful if he could come to us with that information.

By Mr. Henderson:

Q. I am impressed with your statement about your finance department accumulating \$147 million to be invested in your Canadian subsidiaries. I listened to your remarks about the formula from the Department of National Revenue and the formula from the Superintendent of Small Loans companies branch. I would like to ask you what two tax departments you have to deal with in the United States with respect to your company in Chicago? Are there two, or only one?—A. In the United States, the tax situation is really quite complicated; but the major tax authority with which we have to deal in the United States is the Federal Income Tax Department. That is a sizeable bill. Also, in many of the states we also have income tax to pay. Not all of the states have income tax, but many of them do and, of course, they all have property taxes.

Q. What I would like to ask you is, how does the department of revenue in the United States consider this \$500,000 each year? In what category do they put that?—A. The expenditures were made in the United States and we bill the amount to the Canadian companies and they pay us a supervisory fee, that is calculated according to the tax formula. So that that supervisory fee would be income on which we would have to pay tax in the United States.

Q. Could we put it this way, that the federal taxation bureau in the United States considers that \$500,000 as an income on goods and services rendered to a company, or to a customer, outside of the United States?—A. Let me say this: I believe that is true, but if you will permit me I will be able to confirm that at another hearing. Your question is an intelligent one to which I should have the answer but I do not have it.

Q. I have another question. How do you dispose of the difference between the \$500,000 and the \$725,000? If we use your formula, it would be \$725,000. How do you dispose of that difference between \$500,000 and \$725,000 at your main office as far as taxation is concerned?—A. As far as our position is concerned, the \$725,000 one is the one on the books.

Q. What happens with reference to the United States federal authority on that?—A. If I am correct, the so-called supervisory fee was paid at the rate of \$725,000 in the aggregate and that is income received as far as the federal tax people are concerned. This \$485,000, so-called \$500,000, is just a memo.

Q. That is considered by the American taxation people as being a loss, that difference?—A. No. The money was spent. It was disbursed. This is reimbursement for expenses of the American company.

Q. I will leave those two points with you.

By Mr. Pallett:

Q. Are you suggesting to this committee that your company, after having been requested by the Superintendent of Insurance to readjust your formula, merely readjusted it on paper for the purpose of filing with the Department of Insurance and did not in fact readjust it between the companies?—A. That is literally what I am saying.

Q. I do not think that achieves the end of the request by the Department of Insurance at all, if I may be so bold as to suggest it.

By Mr. White (Hastings-Frontenac):

Q. In your return to the American federal income tax department would you show as a deduction the disbursement of \$725,000 expenses for services rendered to the Canadian corporation?—A. Would you mind repeating your question.

Q. In your return to the American federal income tax authorities would you show as a deduction for income tax purposes the item \$725,000 which you say is for services rendered to the Canadian corporation?—A. Yes.

Q. You show it as a deduction for expense in the United States and you show \$500,000 income from the Canadian corporation?—A. The actual income received was not \$500,000 but \$725,000.

Q. But do you show as a deduction for your operating expenses in the United States, \$725,000?—A. I am certain that we did. If we show the \$725,000 as income, we would show the other as a deduction.

Q. Then am I correct in saying that in Canada this \$485,000 that is paid to you, is shown as a deduction here for income tax purposes?—A. No. It is the \$725,000 which would be shown for income tax purposes.

By Mr. Fleming:

Q. I think that this will become clearer when you bring the information about which I asked in respect to the tax return, and whether it was done with the knowledge, and perhaps approval, of the Department of National Revenue. Is this a fair summary of the position now in regard to these payments, that in the United States operating statement you show the \$725,000 expended on behalf of the Canadian subsidiaries as part of your total overhead expense, and on the other side of your operating statement you show a reimbursement from the Canadian companies of \$725,000, so that as far as this item is concerned it is in balance; and as far as Canada is concerned in your income tax return you prepare that return precisely on the same basis showing payments of \$725,000?—A. Absolutely.

Q. As payments by the two Canadian corporations to the parent company in the United States. But, in view of the position taken by Mr. MacGregor in regard to the inclusion of some of the things in your formula, you have prepared a separate statement submitted to him on the basis of the payments of \$485,000 instead of \$725,000, and his figures in respect to the cost of doing business in Canada for the two Canadian companies are based then on the figure of \$485,000 and not on the \$725,000?—A. Right.

Q. So far as your income tax returns are concerned, the officials of the Department of National Revenue will have to decide for themselves whether they consider the \$725,000 is a special expense of doing business with the two Canadian companies. As far as Mr. MacGregor's office is concerned, he has a lower figure to work on, by way of expense, in tabulating your cost of doing business in Canada and in comparing it with that of other small loans companies. Is that a fair summary?—A. Yes.

Mr. CAMERON (*Nanaimo*): I wonder, Mr. McClure, if you could tell us what proportion of the \$725,000 which you derive from your Canadian companies for these purposes, which you have set out, relates to the total expenditures by the parent company for these purposes in the United States?

Mr. PALLETT: We have that.

Mr. CAMERON (*Nanaimo*): Did we have that?

The CHAIRMAN: I think he said 14 per cent.

By Mr. Fairey:

Q. May I add to that that the total amount spent was \$4,227,000 and Canada was allotted of that amount \$1,241,000?—A. I am sorry, sir, you have lost me. Let me start again.

Q. Perhaps Mr. MacGregor might correct me if I am wrong. The total pool in 1953 was \$4,227,000 and Canada was allotted of that amount \$1,241,000 and Canada paid \$734,000. Also, I understood him to mean this, that that \$734,000 was for actual expenditures in the Canadian offices leaving a balance of nearly \$500,000 which was the fee. Is that right, Mr. MacGregor?

Mr. MACGREGOR: Yes. But I made it clear, I think, that that relates to the two Canadian companies in 1953.

By Mr. Fairey:

Q. Yes. That amount of nearly \$500,000 is divided between the two companies. The question which I was going to ask—and I think this bears on what Mr. Cameron said—is that of the total in the pool of \$4,227,000, Canada was allotted \$1,241,000 as its share, part of which was spent by the Canadian company in Canada and the balance of nearly \$500,000 was the amount expended on their behalf as their share of the headquarters expenses. The question I was going to ask is, on what basis was the total Canadian share arrived at of \$1,241,000?—A. Roughly, it depends upon the ratio that the total Canadian position bears to the whole. Roughly, the Canadian position today is in the ratio of 31 per cent of the consolidated total, so that you can see—and this is as good arithmetic as any—if our allocation is fairly and properly dealt with then the Canadian companies pay approximately 31 per cent of whatever the cost of the function about which we are talking is and the American companies pay 69 per cent. Now, there may have been a little different per cent in 1953 and in 1954 because these are calculated each year; but roughly that is it. You arrive at your allocation of the general amount which is applicable, then you subtract from that the amount which the Canadian headquarters account paid, and the difference is what the allocation is.

Mr. MACGREGOR: If I might supplement Mr. McClure's remarks, with his permission, I can say that the figures I gave earlier, and which are quoted, were based upon the net branch operating income in Canada as compared with the whole and the percentage, using the company's own figures, was 29·27 per cent.

By Mr. Benidickson:

Q. Can I satisfy myself that the figure of \$725,000, which was the payment out of the Canadian corporation to the American headquarters, following a historic pattern up to now, has not been objected to by the Department of National Revenue. Is that correct?—A. That is right, sir.

Q. Your readjustment for the purpose of the reports to the Department of Insurance began in 1955? That is the first year that you used the new formula in so far as the figures for the Department of Insurance are concerned? —A. I would like to refer that to Mr. MacGregor.

Mr. MACGREGOR: 1954 was the first year.

The CHAIRMAN: Gentlemen, it is one o'clock. I suggest that we adjourn until Tuesday next at 11 o'clock.

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Canada Banking And Commerce
Standing Committee on 1956

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

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STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 16

BILL 51

An Act to amend the Small Loans Act

TUESDAY, JULY 10, 1956

WITNESSES:

Mr. Donald F. McClure, First Vice-president, Household Finance Corp.
(U.S.A.) Mr. K. R. MacGregor, Superintendent of Insurance.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

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ON
BANKING AND COMMERCE

-Chairman: John W. G. Hunter, Esq.,
and Messrs.

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| Bell | Hollingworth | St. Laurent (Temis- |
| Benidickson | Huffman | couata) |
| Blackmore | Low | Stewart (Winnipeg |
| Cameron (Nanaimo) | MacEachen | North) |
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| Fairey | Pallett | Weaver |
| Fleming | Philpott | White (Hastings- |
| Follwell | Power (Quebec South) | Frontenac) |
| Fraser (St. John's East) | Quelch | White (Waterloo South) |
| Fulton | Rea | |
| Gour (Russell) | Regier | |

Eric H. Jones,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, July 10, 1956.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Ashbourne, Balcom, Bell, Benidickson, Blackmore, Cameron (*Nanaimo*), Deslieries, Eudes, Fairey, Fleming, Follwell, Fraser (*St. John's East*), Gour (*Russell*), Hanna, Henderson, Huffman, Hunter, Macnaughton, Monteith, Philpott, Quelch, Regier, Thatcher, Tucker, Vincent and White (*Hastings-Frontenac*).

In attendance: Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance and Mr. Donald F. McClure, First Vice-president, Household Finance Corp. (U.S.A.), and other representatives of certain Small Loans Companies and interested organizations.

On motion of Mr. Regier, seconded by Mr. Argue,

Resolved,—That Mr. Cameron (*Nanaimo*) be substituted for Mr. Stewart (*Winnipeg North*) on the Sub-committee on Agenda and Procedure.

The Committee agreed that the Sub-committee on Agenda and Procedure should meet at 2.00 o'clock p.m. this day to consider and recommend how frequently the Committee should meet in future to consider Bill 51.

The Committee resumed its consideration of Bill 51, An Act to amend the Small Loans Act.

Mr. McClure was again called; he was further questioned and was retired.

Mr. MacGregor was again called; he was further questioned on his statement and continued with his reading of it.

At 1.05 o'clock p.m., the Committee adjourned to the call of the Chair.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

TUESDAY, July 10, 1956

11 A.M.

The CHAIRMAN: Gentlemen, we have a quorum.

Mr. McClure was on the witness stand last week and I think his questioning had not been completed.

Mr. REGIER: Mr. Chairman, before we begin proceedings, I would like to move, seconded by Mr. Argue, that Mr. Cameron (*Nanaimo*) replace Mr. Stewart (*Winnipeg North*) on the steering committee.

The CHAIRMAN: You have heard the motion, gentlemen; all those in favour?

Contrary if any?

I declare the motion carried.

Mr. CAMERON (*Nanaimo*): Mr. Chairman, before we proceed with the witness, I wonder if I could bring up a question that has been agitating a number of the members of this committee? It has to do with the infrequency with which this committee is meeting. It does seem to me, and to the other members of the committee with whom I have discussed it, that if we are to hope to have this bill finished in time, it will be necessary to meet more frequently than we are meeting at the present time.

I imagine a motion to that effect is not in order in the whole committee, but I would like to recommend it to your attention, Mr. Chairman.

The CHAIRMAN: That thought has naturally occurred to all of us, Mr. Cameron. I would suggest that after this meeting, say at 2 o'clock, we have a meeting of the steering committee and discuss this, to see whether it is practicable to have more meetings. Because, it is just a question of whether it is possible, and whether the committee wants it. If they do, we can bring in a recommendation to the committee at the next meeting.

Mr. ARGUE: Mr. Chairman, I want to say a word on that point, since you are going to have it discussed now by the steering committee. I think it is of very great importance that this committee meet more frequently, so that this bill will be reported out of the committee. The bill was given second reading by the House of Commons on March 8 and referred to this committee. Over four months have gone by since the bill was passed. Unless we meet more frequently, the benefit from the reduction of interest rates will be denied the consumers and the borrowers of this nation.

I am hoping that the steering committee will arrange for more frequent meetings. I might say that the agricultural committee, of which the majority of the members are from eastern Canada, has been meeting twice a day, Mondays and Fridays as well as Tuesdays and Thursdays and I cannot see any reason why this committee cannot do the same.

The CHAIRMAN: I am quite sure, Mr. Argue, that what you say is true. I am only sorry that you would not be there; because you have been such an infrequent visitor here, I think you are actually the last person that should make that motion.

Mr. ARGUE: Mr. Chairman, I am not going to take that. I think I am as faithful a member of the House of Commons—

The CHAIRMAN: I am not talking about your fidelity, I am talking about your attendance.

Mr. ARGUE: That is immaterial, because an opposition member may or may not be at a committee, and that has nothing whatever to do with the responsibility that the government has in seeing that its legislation is expedited.

The members of our group have always been well represented at this committee. I have had other committees to attend. When the agricultural committee was on at the same time, I was not able to be here. But, whether I am here or not, I am hoping that this committee will look after this situation.

Mr. QUELCH: Mr. Chairman, I would like to point out that your remarks with regard to the member from Assiniboia could probably be made in respect to myself, because I am a member of this committee and I was attending the agricultural committee. But, time after time we did suggest that an attempt should be made to have those two committees meeting at different times. It just so happened that every time the agricultural committee met it seemed that the Banking and Commerce committee met as well, in the morning—of course the agricultural committee met in the afternoon as well.

But, I think, as pointed out by the member for Assiniboia, that we should try to have the meetings of this committee more often—that is, if we have any intention of getting this bill through this session.

Now, in the past, on many occasions when there was a bill that was raised that we were not very much in favour of, it seemed to others that it was desirable to push the thing through and sometimes they met three times a day. Now, there does not seem to me to be that desire in this matter at all.

The CHAIRMAN: Next week, as you know, the House will be sitting at 11 o'clock in the morning, so it is obviously not practical to have meetings of the committee then at 11 o'clock. Therefore, I have arranged, subject to the advice of the steering committee, to hold meetings at 3.30 o'clock in the afternoon. We will sit from 3.30 to 6, which gives us a longer meeting. Now, if the steering committee recommends that we sit in the evening also, that is their privilege.

Mr. CAMERON (*Nanimo*): I will point out, Mr. Chairman, that previous meetings of the Banking and Commerce committee were very frequent while the house was sitting in the mornings and afternoons when, as Mr. Quelch has pointed out, those in charge of the proceedings were anxious to push the legislation through.

The CHAIRMAN: I would point out that you are quite wrong; it is not so. When the house was sitting from 11 o'clock in the morning the Banking and Commerce committee did not meet frequently, and very often the other committees did not meet at all.

Mr. CAMERON (*Nanaimo*): Not under your chairmanship, but under the chairmanship of your predecessor, the committee, of which I was a member, did meet in the morning when the house was sitting.

The CHAIRMAN: I was a member of that committee.

Mr. CAMERON (*Nanaimo*): Probably you were not in attendance at that meeting, because I remember, Mr. Chairman, you were very infrequently in attendance until you became chairman.

The CHAIRMAN: I attended as assiduously as you.

Mr. ARGUE: On that point, I want to point out that the agricultural committee, which is probably the largest standing committee of this house, met

last Friday morning at 11.30 a.m.; there was no objection, as far as I know, from a single member of that committee. We met on Friday, which is certainly inconvenient to some members, and we met in the morning when the house was sitting.

The CHAIRMAN: Yes. I am very thankful for your advice, Mr. Argue.

I would point out to the committee that Mr. McClure's evidence is restricted to the one point under discussion at this time. If he is put forward later as a witness for the Canadian Consumer Loan Association, that is different; but, at this time he is restricted to the one subject under discussion.

Mr. Donald F. McClure, First Vice-president, Household Finance Corporation (U.S.A.) called:

Mr. FOLLWELL: Mr. Chairman, I think, if the committee will recall, there were several questions asked that I do not think were answered. Mr. Henderson asked one with regard to the tax structure in Canada, and whether or not the payment of this fee by the Canadian company to the parent company would be advantageous to the parent company, taxwise in Canada and in the United States. I think Mr. McClure had intended to answer that today.

The WITNESS: In response to your statement, the fee which is charged to the Canadian operation, in the amount of approximately—as far as our books are concerned—in the amount approximately of \$725,000, is received by the U.S. parent company as income subject to taxation in the United States.

By Mr. Fleming:

Q. Where does the net advantage lie with the total interest of Household—the total interest including its tax position in the position in the United States and its tax position in Canada—with a fee payment of \$725,000 by the Canadian companies to the American parent, or a fee of \$485,000?—A. I am not sure that I understand exactly what your question is, because there is no advantage or disadvantage to the company, taxwise, in the payment. The fee of \$725,000 is deductible for Canadian income taxes in Canada. This consolidates the fee paid by the two Canadian companies and the parent company has to pay the United States income tax on that.

Q. I think that is quite clear, Mr. McClure. My question was; where does the net advantage lie with regard to the total tax position? Obviously if the Canadian company is paying \$725,000 instead of \$485,000 and it is treated by the Department of National Revenue as a proper expense of doing business in Canada, the Canadian income tax is going to be somewhat less. On the other hand, if the parent company in the United States is receiving a payment of \$725,000 at Chicago rather than a payment of \$485,000, it is going to pay more tax to the United States. Where does the net advantage lie?—A. As between the \$485,000 and the \$725,000?

Q. Yes. I am speaking, now, of the total net tax position of the Household group of companies.—A. I do not know that there is any difference in the net position.

Q. There would not be any difference if the rates of taxation in each country were exactly the same, but they are not.

Q. No, the tax rate in Canada is 47 and in the United States it is 52.

By Mr. Benidickson:

Q. What about state tax? Is there an Illinois state tax?—A. No, there is no income tax in Illinois or in Delaware. This is a Delaware corporation.

By Mr. Fleming:

Q. And this \$725,000, which is the actual payment transferred by the Canadian company to the parent company, goes into the operating statement of the American parent company and is reflected in a higher taxable income?—
A. In the United States.

Q. And at a rate somewhat higher than the rate payable on the taxable income of the corporation in Canada?

By Mr. Fairey:

Q. Does the advantage not lie with the United States government rather than with the Canadian government with regard to this payment of \$725,000 which is transferred to the United States? If the payment were to be \$425,000 it would be to the advantage of the Canadian government rather than of the United States government.—A. If the amount of the fee were reduced from \$725,000 to some lesser amount—\$500,000, or \$225,000—anything you want—we would have less of a deductible expense in Canada, and if the same amount were transferred to the United States we would have less to pay tax on in the United States. In any event, the work which is the basis for the fee and which is performed in the United States would be a deductible expense in the United States.

By Mr. Fleming:

Q. May I just complete that point, Mr. Chairman? I take it that the practice of the Household group is to transfer from Canada to the United States whatever profit may be declared from time to time in the form of dividends on the Canadian companies so that whether the payment is made in the form of larger or smaller supervision payments—we might call it that—or as headquarters' expense payments, if the payments are reduced presumably there will be more profit in the Canadian operation to declare as your dividends and payable in that form to the American parent and, correspondingly, if the service payment were higher, then the profits to be declared in the form of dividends would be smaller. Is there any difference in the rate of taxation applied under the American income tax law to corporation income derived from these dividends from wholly controlled subsidiary companies on the one hand, compared, with such payments as these supervision payments on the other?—
A. No. The dividends paid by the Canadian company to the parent company are subject to federal income tax in the United States.

Q. At the same rate?—A. At the same rate.

Q. So that the net position of the American company taxwise in the United States is not affected at all, as I see it, because the American company is going to receive these payments either in the form of dividends or as supervision payments.

The CHAIRMAN: Is there any surtax on unearned income in the United States?

The WITNESS: No longer. The so-called excess profits tax, or unearned income feature of the United States Income Tax Act was done away with, I believe, in 1953.

Mr. MONTEITH: It does not apply here to corporations either, Mr. Chairman.

By Mr. Fleming:

Q. Mr. McClure, the one point which the committee was concerned about, I think, at the last meeting, was that the difference in the statements which are being sent by the two Canadian companies to the two Canadian government offices should be known to those two offices. In other words, you are making up one statement for income tax purposes—a statement which is

going to the Department of National Revenue and which reflects accurately the payment of \$725,000 which was actually made by the Canadian companies to the parent companies—and, on the other hand, in view of the position taken by Mr. MacGregor that the Canadian company on that basis was being charged more than was fair for the service that was being rendered in Canada by the parent company in return, you have prepared another statement in which you have reduced the amounts so paid from \$725,000 to a figure of \$485,000, which is the figure that he uses in making up the tabulation of the cost of doing business by the Household companies in Canada for comparison with other companies in his detailed reports on the cost of doing business by small loan companies in Canada. I think the committee would wish to know that the Department of National Revenue is aware of the kind of statement being submitted to Mr. MacGregor's office. I think it is quite clear that Mr. MacGregor is aware of the income tax return, and the basis of your operating return being submitted to the Department of National Revenue.—A. There is no reason I know of why both departments should not be fully aware of what is going on, because the Department of Insurance has the right to inspect our books, and our books are kept on the same basis as our income tax account. So, I assume that the Department of Insurance knows exactly what is going on, in the same way as the income tax people. The Department of Insurance figures are a matter of public record, so I have no doubt that the income tax people are very careful in checking on their information. There is no question in my mind that they should know what is going on in the other department. There is nothing to hide.

Q. And you have on your part made full disclosure of these statements and of the difference in them, so it is a matter for the Department of National Revenue itself, then, to decide whether they are prepared to concede for income tax purposes that this payment of \$725,000 is a proper expense of the two Canadian companies of doing business in Canada.—A. That is right.

Q. This question, probably, should not be directed to you so much as to Mr. MacGregor or to the chairman: is there in the bill before us anything that would have any bearing on that situation, anyway?

By Mr. Argue:

Q. Now you are out of order, after you have asked all those questions. I wonder if Mr. McClure could tell us the amount of the increase in the Canadian tax that would result through wiping out this \$725,000 expense item? In other words, if Mr. MacGregor's hope were realized that it would not be listed at all, and then if the Department of National Revenue decided that it should not be listed, how much more money would the company pay in income tax?—A. I think the best answer would be to apply the 47 per cent tax rate to the figure—

The CHAIRMAN: I doubt whether that would be the true answer. Supposing you did not charge up this amount to the Canadian company? Would not the Washington Department of Internal Revenue question whether that was a charge properly applicable to the American company?

The WITNESS: They might, sir, certainly if the rate of expenditure continued and as long as we believe the work has to be done to provide the capital for the Canadian operations and these other departments which were outlined in some detail at the last session. If they continued, that would have the effect of inflating the American expenses for which no compensation was received in the United States subject to tax, so I fancy that in time the United States income people might question that.

Mr. ARGUE: Well, Mr. Chairman, as far as I am concerned, the man who looks at these accounts most closely and the man whose responsibility

it is to inquire into the cost of operating these firms has told the committee that not only would he like to see this figure of \$485,000 reduced but that he would like to see it removed altogether. I am not so much interested in deciding whether or not—as Mr. Fleming has been—this item in Canada has a comparable item in the United States, or whether it is fair from the viewpoint of the accounting practices in the United States and of the company in Canada. All I am interested in at this point is finding out whether the Canadian treasury is getting less money than it should.

The CHAIRMAN: I think they are quite interested in that too.

Mr. ARGUE: There is another question, Mr. Chairman. It is not only a matter of whether this practice is denying the Canadian treasury a certain amount of money and thereby giving a bonus to the American treasury. The main interest I have is to see whether or not these costs can be reduced in order that the borrower in this country might receive some of the benefits. If we could get costs down, it might result in more money becoming available to the Canadian treasury; it could also lead to a reduction in the interest rates charged, and I wonder to what extent interest rates could be reduced by a reduction in this cost of \$725,000.

The CHAIRMAN: Have you a question, or are you just making a speech?

Mr. ARGUE: That is the question. The chairman of this committee is the best authority on making speeches and on interrupting other people's questions.

The CHAIRMAN: I am quite an authority on speeches, and that was a speech!

Mr. ARGUE: I think Mr. Chairman I have asked my question.

The CHAIRMAN: I think you have answered it too, haven't you?

The WITNESS: I think the answer was given in my testimony last week and it is in the record. My memory is that if you take the figure of \$725,000 and relate it to the \$121,957,000 of average amount of notes receivable in 1955, it amounts to six-tenths of one per cent per annum, or, if you want to reduce it to a monthly rate since the small loans law permits a monthly rate of 2 per cent, it would amount to a reduction of five one-hundredths of one per cent per month.

By Mr. Argue:

Q. What is the figure of outstanding notes and accounts receivable?—

A. The average amount outstanding in 1955 with regard to the two companies was \$121,957,000.

Q. To what extent is this item charged to Household Finance as listed in the annual report of the Superintendent of Insurance?

Mr. BENIDICKSON: Mr. Chairman, on a point of order. This evidence was all given at the last sitting of the committee. The allocation as between the two Canadian companies was given in evidence at that time.

The CHAIRMAN: But, Mr. Benidickson, Mr. Argue was not here and he is interested.

Mr. ARGUE: I have read the evidence.

Mr. BENIDICKSON: On a point of order, I think members of the committee will agree that the attention we are giving to this particular point is rather out of proportion to the attention we must give to the bill as a whole. I know that Mr. Argue himself wants to give attention to the bill as a whole, and I am satisfied that the breakdown of these figures was provided at the last hearing. Do you agree, Mr. Chairman?

The CHAIRMAN: It was all provided. This is repetitious.

Mr. ARGUE: Mr. Chairman, I read the evidence, and this is my question—and perhaps I can be told whether the information was given in evidence or not; I doubt very much whether it was. To what extent was this item as listed in the report of the Superintendent of Insurance defrayed by the company for which the small loans income was listed as \$12 $\frac{3}{4}$ million? That is on page 12 of the report of the Superintendent of Insurance for the year ended December 31, 1954.—A. Of the \$725,298, \$421,198 was charged to and paid by Household Finance of Canada as a small loans licensee.

Mr. BENIDICKSON: Could we ask whether or not that information was given previously? I think it was. I know the breakdown of the \$485,000 was given.

The CHAIRMAN: I was here at the last meeting and I remember it.

By Mr. Argue:

Q. Mr. Chairman, is that not approximately 2 per cent of the interest earned on small loans as listed in this report?—A. I do not have the figures in front of me so I do not know.

Q. The income earned on small loans is listed as \$12,758,000. Your item applicable to that is approximately \$300,000.—A. Approximately \$300,000.

Q. \$298,000—A. Oh, you are referring to the fee in the report to the Insurance Department.

Q. You have broken down these figures for me and I want the figure which you can give me as a percentage of the income earned on loans; it is a little over 2 per cent.—A. I am not sure what you are talking about. Are you talking about the aggregate fee of \$725,000 which was paid, or are you talking about the \$485,000 which was reported to the Department of Insurance?

Q. It was reported for this company. It was not the balance that was reported for this company?—A. Which are you talking about?

Q. I would like to know what portion of the \$725,000 would be allocated to the company listed as no. 3 in the report to which I referred.—A. \$421,198.

Q. So, that is well over 3 per cent of the \$12,758,000 which is listed in this report as earned on loans?—A. I am sure that your arithmetic is correct. I do not have the figures in front of me.

Mr. MONTEITH: Actually I think it is a little large.

The CHAIRMAN: It is all set out on page C6 of the transcript of evidence of our meeting on July 5.

Mr. ARGUE: And your memory is so good that you have looked it up!

The CHAIRMAN: My memory is so good that I knew it was there and I have checked it. Do you really want to go into it all over again?

Mr. ARGUE: Mr. Chairman, I do not think that I need to be subjected to abuse from the chair. I had finished my question, I said nothing, and then the chairman started to speak. The chairman is a most vocal member of this committee, which he should not be.

By Mr. Follwell:

Q. It was developed in last Thursday's meeting that the Household Finance Corporation of Canada pays a supervisory fee to its United States parent corporation, and this fee is considerably less in its report to the Superintendent of Insurance than the fee actually is in reality. This, therefore, shows a larger profit for this company than actually results from its operations. Is that correct?—A. That is correct.

Q. If it is, does this then not, in effect, result in a subsidy, as far as the figures in the report are concerned, since these are the ones which are

undoubtedly considered for rate making purposes?—A. In our opinion, yes. In our opinion the actual benefits which the combined Canadian operation sustained was in the neighbourhood of \$725,000. Now, a reduced figure was used in the report to the Department of Insurance. The difference between the figure of \$485,000 and the figure of \$725,000 is a lessening of the burden of the actual cost of Canadian operation—call it subsidy if you wish.

Q. Well, Mr. McClure, would you agree then that this might prejudice the position of Canadian independents when considering over-all industry figures for rate making purposes?—A. Well, I think that the Canadian operators should perhaps speak to that point. There is no question about the fact that it makes the figures appear more attractive than they would be if the figures reflected what we regard as the true cost.

Q. Mr. Chairman, I think that Mr. McClure indicated that, for that fee, part of the duty of the parent company was to provide money to the Canadian company for financing. I think, Mr. McClure, that you could tell us again, was it about \$50 million which the parent company provided as part of their responsibility in relation to that fee?—A. The actual amount of the money provided in the way of money lent to the subsidiaries in Canada was in the neighbourhood of \$115 million but that is the combined operation. You see, we have this confusing problem of the Department of Insurance figures only including the small loans licensee, the company which makes loans up to \$500. My belief is that the money advanced to that company was in the neighbourhood of \$45 million. Then, we have the Household Finance Limited, which does not make reports to the Department of Insurance, which is a major company now, and the advances to that company were enough larger so that the combined amount was \$115 million. Is that in response to your question?

Q. Yes. May I ask one more question, Mr. Chairman. What, in your opinion, would have been the result on the Canadian economy had not the \$115 million of American money been provided for use by Canadians in Canada.—A. Did you say on the Canadian economy?

Q. Yes.

Mr. REGIER: That is a tall order!

The WITNESS: This money has been built up gradually. It did not all happen last year. We have been operating here since 1933. There is no question in my mind that for this type of business—small loans business—it would have been impossible to obtain \$115 million in Canada for that operation. The parent company was able to obtain it, in small part, in Canada, but in much greater part in the United States at a price which seems very reasonable in relation to the growing rate for interest elsewhere. The charge made for this \$115 million by the parent was in the neighbourhood of $4\frac{1}{2}$ to $4\frac{3}{4}$ per cent, depending upon whether you are talking about notes or advances to the company. The actual cost was somewhat in excess of that, and that excess cost represents the work which is required to get the money. That work is one of the chief items of the general management overhead which is represented by this fee.

By Mr. Regier:

Q. Mr. Chairman, I would like to pursue one point which was referred to by both Mr. McClure and Mr. MacGregor. I understand that this \$725,000 is not the only money paid by the Canadian section of the company to its parent organization. Am I correct in assuming that, as a basic assumption, there was \$1 million paid to the parent company, including the \$725,000?—A. I know of no such figure. I have not heard it. Maybe I have forgotten something that was said.

Q. I believe my memory serves me correctly that we were told that there was a sum for services rendered almost in the neighbourhood of \$14

million that went to the parent company, and that out of this amount there was approximately half a million dollars that was identified for purposes of payment. There were no services rendered for which this half a million dollars was paid; then there was left a balance, as I understood it, of some \$725,000 which was, for the lack of a better name, labelled a supervisory fee. Am I right in that?—A. No, you are not correct, sir. No other fee was paid by the Canadian operation to the parent company.

Q. Might I ask Mr. MacGregor, Mr. Chairman, at this point, whether my statement is in error?

The CHAIRMAN: Let us finish first with Mr. McClure.

Mr. REGIER: Mr. McClure is denying that other payments were made. If no payment was made I have no other question. However, if identifiable payments were made in excess of the \$175,000, then I have a very important question.

By Mr. Fairey:

Q. Mr. McClure's answer is that the total expenditure of the company was \$4,227,000 odd, and the Canadian share of that total expense was \$1,241,000. Of that \$1,241,000, \$734,000 was actually expended in Canada by the Canadian companies. That is the point which I believe Mr. Regier is getting at. The balance of that—that is the balance of the \$1,241,000 and the \$734,000—leaves \$499,000, roughly \$500,000, which is the fee.—A. I think that is true. Perhaps this may not clarify the picture, but the figure to begin with was a consolidated figure representing expenditures made in both Canada and the United States.

Q. All companies including the subsidiaries?—A. Some part of this was money spent by the Canadian headquarters for paying Canadian expenses, such as the salaries and travelling expenses of the Canadian supervisors. It was clearly connected with headquarters expense for Canadian operations. It was no payment to the parent company. What we are talking about here is a residuary amount of headquarters work which is primarily done in the United States. The problem is what is the best and most businesslike way to see that each of the operations pays its share of that.

The CHAIRMAN: Mr. Regier, I think that you were referring to some figures that were given by Mr. McClure for the year 1953. I think that Mr. Fairey is referring to figures for the year 1955. I do not really think that you are talking about the same thing.

By Mr. Regier:

Q. I think perhaps I had misunderstood Mr. MacGregor. I had understood him to say that \$1 million was sent south of the border whereas now it seems that he did not say that and this half million dollars was a Canadian expenditure in Canada.

Would it not, Mr. McClure, be much more satisfactory over there if, instead of labelling a large amount of money as a blank supervisory fee, it were identified? Today you listed the various things and did identify it. Surely in your accounting department you have the breakdown, and would it not be much more satisfactory to all concerned if, in your reporting, this were not listed as a supervisory fee but was actually broken down and identified?—A. I think that it would make it easier for a deliberative body such as this to grasp the principle involved. And that is the reason some organizations do that very thing. But if you do it this way, you are put to the necessity of establishing at whichever headquarters has the major share a cost accounting system, with one or two people in charge of it, and a billing system. The superintendent referred to the fact that he liked to see bills for stationery come in to be O.K.'d. That is a mechanical allocation of expenses and it would

be possible to do it but we have not done it up to this time because it would increase the expenses. We wish the operation to be free from criticism and accepted as an honest effort to arrive at results. So far, we have taken the present simpler method; but if the general feeling is that we should go to a more elaborate system of cost accounting, we could possibly do it.

Q. As it is now the inference is plainly there that this whole sum—because it is not identified and labelled as to its particulars—is a gratuity or a tip, if you like, to the parent company. Mr. Chairman, I am entitled to express my opinion on what my reaction is to these figures.

The CHAIRMAN: You are not expressing an opinion. You are saying there is an inference. Why don't you say that in your opinion the inference is there. You are speaking as if there was a unanimous inference.

Mr. REGIER: All right, then. I will say that in my opinion the inference is there, that this money is not being accounted for in a proper businesslike manner. I am sure despite what Mr. McClure just said—and I do not think he quite realized what he was saying—I am sure that the head office of the parent company has a complete breakdown of these figures. I cannot realize such a monstrous company just more or less taking a sum total and saying, "this is it."

The CHAIRMAN: Do you mean immense or monstrous?

Mr. REGIER: And saying, "this is it"; I am sure that in the head office there must be a complete breakdown of what happened to the \$725,000, and I am sure that the company must provide the American income tax department with an accounting and the details of it. Therefore I fail to see why the Canadian Superintendent of Insurance and the Canadian Revenue Department cannot also be supplied with details of it rather than to have it just labelled as a blank supervisory fee. That was my only point.

The CHAIRMAN: Is there a question there that you want the witness to answer?

Mr. REGIER: No, I think he answered it before.

The CHAIRMAN: Are there any other questions?

By Mr. Philpott:

Q. On one technical point with respect to the item mentioned in regard to the supervisory fee, you said for the preparation of pamphlets and publicity matter—isn't that stuff charged out to the various branches at certain rates?—A. No.

Q. Then how do you decide the distribution?—A. These pamphlets are designed to help people who use our services, and anybody else who is interested in budgetting their income and making themselves better managers of their finances or in buying things. We keep our branch offices supplied with a number of them, and in fact they have little racks in the offices where they are available if people wish to use them. So we do not charge the branches for the pamphlets. We could say "Now, this pamphlet is worth 5 cents, and since we are the parent and you are the subsidiary—and subsidiaries usually do what they are told to do—you have to buy so many of them." In this way it could be done on a mechanical basis, but we do not do it that way. We distribute the pamphlets in the same way to all the branches. The cost of the preparation of the pamphlets is so much; so much of our business is in Canada and so much of our business is in the United States, and thereby we determine how much is allocated to Canada in the fee. It is just what you may regard as the better of two ways, or the best of five ways of making the allocation.

Q. Very well. That is all I want to ask.

Mr. BENDICKSON: Mr. Chairman, having regard to the important relationship of some evidence this morning to the Department of Insurance, I wondered

if the committee would permit me to make a short statement. I do not intend to say anything argumentative about the evidence we have just been listening to, but some members of the committee may have overlooked some facts, in their concern about Canada getting its proper share of income taxes. I point out the change in the reports in the Department of Insurance relating to supervision fee as compared with financial statements as submitted to National Revenue occurred for the first time in 1954. It apparently has been repeated again in 1955.

I would like to point out, first of all, that it is quite possible that Mr. McClure may not be able to tell us, but I think it is quite possible, and most probable that there has not been an assessment made yet of the taxes payable by a corporation of this kind by Canada for the year 1954, and certainly not for 1955. Indeed, the two Canadian corporations may not even have filed an income tax return respecting 1955 profits as yet. As a general rule corporation tax returns are not filed much earlier than the sixth month after the end of the calendar year. That is something which the committee should keep in mind.

Then, in the second place, the committee must not assume if this payment of \$725,000 was completely disregarded as an expense of the Canadian companies by the National Revenue Department of Canada, that then Canada would get its full tax rate on this sum. We have a tax agreement with the United States, and one of the sections of that tax agreement says that the government of either country, with respect to a taxpayer of either country, has the right to advance a claim even with respect to a non-resident, if that taxpayer has a permanent establishment in the country advancing the tax claim.

In other words the United States government, if these Canadian companies have a U.S. establishment and services are rendered in the United States, by no means might it be satisfied to allow none of these expenses and services in the United States to go tax free, and to escape taxation in the United States. It would be a matter of adjustment between the two departments where there is business establishment carried on with respect to these earnings in both countries.

By Mr. Fleming:

Q. Is there any problem with respect to the fiscal year? What is the fiscal year for the two Canadian companies?—A. December 31 in Canada, and it is the same in the United States.

Q. So they are on a uniform basis?—A. Yes.

The CHAIRMAN: Are there any further questions?

By Mr. Cameron (Nanaimo):

Q. I wonder if Mr. McClure—following up a question which Mr. Philpott was asking just now with regard to the pamphlets—have you with you, Mr. McClure, any figures as to the cost of production of those pamphlets?—A. No, I have not, sir; I have not!

Q. And another point is this: the other day you spoke of the personnel department in Chicago as I understood it; that department—or at least the activities of that department have to do in part with—and these payments are applied concerning—training by those who are hiring personnel in the different subsidiary companies. Is that correct?—A. The preparation of training techniques. This is largely in the form of instruction and pamphlets.

Q. Yes.—A. The work is sent over here and is done by the personnel people in Canada.

Q. I gathered the other day from what you said that possibly this branch, or the activities in Chicago, were concerned with the training of personnel directors for your subsidiary companies, and with taking them to Chicago for training.—A. No.

Q. That is not the thing? So even that is included in the pamphlet service? —A. Not some kind of pamphlets we were speaking about a moment ago, which were consumer education pamphlets. The personnel training techniques are inter-office communications.

Q. You have no idea of what the total cost of that particular department would be?—A. No, but let me try to give you an idea, because I think you are entitled to know. I do not remember just what I said about this the last day, but we were talking about it in terms of this \$485,000 overall picture which we reported to the Department of Insurance, of which approximately \$281,000 was charged to this licensee, Household Finance of Canada. I would think that perhaps the aggregate amount of each of these two items—this is a guess, because I am trying to give you an idea—would perhaps be \$10,000 apiece.

Q. Have you any figures as to the total amount of moneys that are raised in the United States by your finance department? You referred the other day to that department and you said that it was taking the largest bite of this payment. Have you any idea of the size of the sum to which that applies?—A. Yes. Let us use this same illustration which again is simply an approximation for the purpose of helping you gentlemen to understand the sums which are involved.

Again, the \$281,000 figure which was reported to the Department of Insurance, and which relates only to Household Finance of Canada—we have just said that the personnel and the consumer education departments accounted for \$10,000 each. I think I mentioned other departments.

Q. You mean research?—A. The research department might come up to \$50,000 or \$60,000 in Canada. If you subtract those items from the \$281,000 it leaves you in the neighbourhood of \$200,000 as what I would regard as a businessman's estimate of the value of the purely financial end. That is why I used the phrase "the largest bite" in describing that part of the fee representing the expenses of getting money.

Q. What I wanted to get at were the sums of money for which you required the \$200,000. There is a distinction between the funds of your parent company which presumably does not need the services of your finance department, and the sums raised outside, the cost of which is approximately \$200,000. How large would those sums be?—A. For the parent company?

Q. No, for the money raised for lending in Canada by your finance department?—A. Well, under our formula we would expect that the amount reported would cover the cost of raising the money for lending in Canada. And my response to your question is in the neighbourhood of \$200,000. That sum gives you an idea of the cost of raising money for Household of Canada.

Q. Is that \$47 million entirely confined to moneys raised by your parent company, not moneys in its possession, in its own funds?—A. Sir, we do not have funds. Every dollar we advance to Canada we have to raise it somewhere.

Q. It is all raised in that way? Thank you.

The CHAIRMAN: Are there any further questions, gentlemen? Thank you Mr. McClure.

Now, we will go back to Mr. MacGregor's statement. We are on page 26 of it.

Mr. K. R. MacGregor, Superintendent of Insurance, called:

The WITNESS: Mr. Chairman, I have no desire to prolong the discussion about this item designated as a supervisory fee, but I do think that I should say a word.

I think that I should say a word in further explanation of the different reports that are being made to our department, as compared with the reports made to the Department of National Revenue. I think perhaps I can summarize the whole story, so far as our department is concerned, in a very few words.

Our files indicated an understanding on the part of my predecessors that this supervisory fee would likely decrease over the years as the Canadian company became more independently established in Canada.

In 1953, when I observed that this so-called fee, instead of decreasing was increasing every year, and had been so almost from the beginning in 1933, I raised the point with the management of the Canadian company. The company replied that any understanding on our part that the fee would decline was in error, at least so far as their views were concerned. I expressed the view, which had been previously expressed by my predecessors, that we always like to see in the financial statement of any Canadian company only expenses that are justifiable preferably those that are definitely identifiable, or at least that are justifiable on the grounds of some services actually rendered. Obviously there was room for wide differences of opinion in this instance, because it was virtually impossible to point to actual services rendered to justify the payment. However, the point was discussed.

At the last meeting of the committee, I think Mr. McClure used the word "argument". Personally, I never considered that it reached that stage. The company indicated that it was going to review—reconsider—the basis upon which this fee had been determined. The department suggested no particular change whatsoever. As a matter of fact, we had no hand in the determination of the new formula, that was very soon suggested by the company. However, the change suggested eliminated from the pool many expenses at the branch supervisory level,—leaving only expenses that were more clearly of a management nature at the upper level. Since the effect of the new formula was a reduction in the supervisory fee charged to the Canadian company, we naturally expressed no opposition to it. We were happy to see it. But, we thought that was the end of the matter. It was indicated to us that the new formula would be applied in 1954.

The 1954 annual statement was filed on the basis of the new formula. The 1955 statement was, superficially at least, filed also on the basis of the new formula. But, in the profit and loss account, or the surplus account, there appeared two new special entries designated as follows: "Supervising fee paid, but not charged to revenue account—year 1955—\$140,142.45, less decrease in income taxes—\$66,636.33. Net for 1955—\$73,506.12." There was also a further item; year 1954—\$163,696.83.

In other words, the profit and loss account in the 1955 statement indicated that although these amounts that I have just mentioned were not included in the expenditure, the Canadian company was still effectively saddled with the burden of them.

In March I wrote to the company again raising the question about these special entries in the profit and loss account. I took the view that if the company was still effectively saddled with the supervisory fee on the old

basis then the amounts of the fee, determined on the old basis, should be included in the expenses. I therefore asked the company to redistribute the special items and to adjust the 1955 statement accordingly.

I should make it clear, however, that throughout the discussions, the department never changed the statement; we never imposed our view in any respect. We discussed the fee but my request in March to remove these special entries from the profit and loss account, since they seemingly are an effective expense burden on the company, is the first change that I have requested.

Mr. McClure mentioned also at the last meeting that after our discussion in 1953, seemingly the company had lost the argument. So far as I am concerned there was no argument. But, if anyone lost it, I think we have lost it. We are back in the old position that we were in in 1953.

Mr. FLEMING: Have you finished, Mr. MacGregor?

The WITNESS: Another point that I might mention is this: A good deal has been said about the services provided by the head office by way of furnishing money to the Canadian subsidiary. I have no wish to minimize the value of these services but, personally, I think the most appropriate way to compensate any lender, for money borrowed, is to pay the lender an appropriate rate of interest.

I doubt whether there is anything more that I can usefully say. Mr. Fairey, however, quoted figures concerning the pooling, being figures that I mentioned at the last meeting. I would simply remark that those figures related to the year 1953, being the last year before the nominal change in the formula, whereas, the amount of \$725,000 that Mr. McClure mentioned as the aggregate fee for both companies related to the year 1955.

Another point, perhaps, that I might say a word about is the manner in which the so-called supervisory fee is reflected in the annual statement filed with the department. True, it is determined by the pooling procedure that I described at the last meeting. But, after the so-called fee is determined it is not entered as such in the expenditures of the company. The fee is broken down and distributed among the several component parts, namely, salaries, rents, and son on, with the result that the annual statement does not show, and, so far as I am aware never has shown the supervisory fee as a separate item in the expenses.

I thought I should make this comment in answer to Mr. Regier's remarks earlier that surely the head office is in a position to break down this supervisory fee. A breakdown is really inherent in the manner in which it is determined.

Mr. FLEMING: Have you finished your statement, Mr. MacGregor?

The WITNESS: I am through.

By Mr. Fleming:

Q. May I ask you a couple of questions? You spoke about what you had found on your files containing views of your predecessors to the effect that this charge—whether you call it a supervisory fee, or headquarters fee, or whatever it may be—would be reduced in the course of time. Was that intended to apply to the absolute amount or to the rate because we have to take account of the very substantial increase in the turnover of business?—
A. I would say in the actual amount, not in the formula. But, I would add, in fairness to the company, that the most pointed remarks or comments in our files in that respect occurred in memoranda back about 1938, when admittedly the business of the company in Canada was very different from that of today. For one thing, it had not acquired the business of the Campbell Finance Corporation, which occurred in 1947, and which added enormously to the volume of business transacted in Canada by this organization.

Q. Has the rate in fact increased, if you apply it to the volume of business?—A. No. So far as I am aware the formula has remained the same, except that in 1954, in addition to the change in the formula that I mentioned previously and which has now seemingly been reversed, namely, the elimination of expenses at the branch office supervisory level, the company, in dividing the pooled expenses between the U.S.A. and Canada, I think changed from the net income, as the basis, to the average of two bases, the first of which was the average amount of balances outstanding during the year, and the second, the average number of accounts outstanding during the year. That latter formula has certainly been used since 1954 in dividing the fee between the licensed Canadian company and the unlicensed Canadian company. The effect of that change if anything was to reduce slightly the burden of the fee on the Canadian companies as compared with the United States companies.

Q. Are we to take it from what you said later in your evidence in regard to the difference between the two statements, that now the company will be called upon to go back to the formula that was in existence up to and including 1953, in making its return to you, so that the return to your department and the return to the Department of Internal Revenue will be uniform?—A. I expect that will be the result.

Q. Now, Mr. MacGregor, in regard to your concern in relation to your responsibilities for this, I suppose we are up against this situation, are we not, that there is question of our national concern—there is a national, or nationalist feature here? We would like to see as much as possible—and this I take to be your view—of the business of Canadian companies done in all respects in Canada rather than to have some of the services performed in the United States on their behalf?—A. Well, I would not like to take that position too firmly, Mr. Fleming. Our main concern is that the published statements of every company under our supervision should reflect accurately the expenditure and complete operations of the company.

Q. I do not wish to misinterpret what you have said, Mr. MacGregor; please correct me if I have misunderstood you. I took it from your earlier statements that there were two factors in your attitude toward this matter of the fee—call it supervisory or headquarters or whatever you like. The first was that you wished to see the services that are rendered to Canadian companies within your charge and for which they are billed, carried out as far as possible within Canada. Secondly—and I am not saying that it is second in importance—that you regard it as your responsibility to see that the statements of these companies reflect accurately and in all respects, the cost of doing business and other factors; and that in relation to the duty of ensuring accuracy, you found a difficulty in relating an arbitrary charge, such as a pool which then is broken down among different subsidiaries on a formula which necessarily must have some arbitrary features about it, to the actual cost incurred. That leaves you with some difficulty with regard to ensuring accuracy. Those, I think, were the two features with regard to your attitude toward the fee. Have I correctly interpreted your evidence?—A. I think you have, Mr. Fleming. Inherent in this pooling procedure is, of course, the fact that the Canadian company is bearing its pro rata share, so to speak, of expenses incurred by various member and subsidiary organizations in the United States where the rates of expense may be very much higher than in Canada. If we want to be in the best position to understand the earnings and profits of the Canadian company I should not like to feel that there was any doubt—or much doubt—that the Canadian company was being asked to bear any share of a relatively higher level of expenses that might be inherent in the operation of these United States companies about which we know nothing.

By Mr. Macnaughton:

Q. My question, Mr. Chairman, was on the same lines as that asked by Mr. Fleming. I was just interested in finding out, in view of the great increase in the business the company does, whether the supervisory fee has increased in the same proportion, or whether it has been over-increased, so to speak, until it is out of proportion to the increased business. Is it in the same relation? Increased business would naturally mean an increased fee inasmuch as more services are rendered.—A. I have not looked into that aspect of the matter carefully, but if I were asked to guess I would say that the proportion has not been increasing but probably has been declining somewhat and, of course, the part of the fee allocated to the licensed company is now going down simply because the volume of business in the unlicensed company is increasing at a much more rapid rate, so that the unlicensed company is rapidly assuming a larger share.

By Mr. Thatcher:

Q. You say that you would expect this supervisory fee to decrease over the years. I cannot follow your reasoning there because I would think that as the company increased the number of its branches expenses would increase, and certainly over the last few years rent and everything else has gone up substantially. Why would you think that expenses should go down instead of up?—A. The main reason for the expectation of a reduction in the fee on the part of my predecessor lay, I believe, in the expectation or understanding that as time went on the Canadian company would become more independently established in Canada. That has not been entirely the case and many services are still provided by the parent company.

Q. But if the company chooses to do that work in their American branch, surely that is their business? If it is a legitimate expense why should not they charge it up?—A. This is a Canadian company; it is not a branch of an American company. This company has its own board of directors who, of course, in part, have a close connection with the parent organization but through whom one might normally expect policy direction and so on would flow in the normal course.

Q. Certainly all expenses have been going up in the past few years—A. I quite agree.

Q. —I cannot see why this should be an exception.

Mr. GOUR (*Russell*): For my part, I think it would be desirable if the committee were given a full breakdown with respect to the sum of \$725,000, giving us precise figures for each item including the cost of the money they lent to their Canadian subsidiary. I think that would only be right. We should have something in detail—something that we could understand.

The CHAIRMAN: Has not the witness stated that this has been done, and that this sum has been broken down into the various items?

By Mr. Gour (Russell):

Q. But I would like to direct this question to Mr. McClure, and ask him about it. I understood that a breakdown was given with respect to \$50,000, but what you know about \$50,000 does not help you very much with regard to this much greater sum. There is too large a margin and that is why we cannot understand what this money is paid for. It is important, I think, that we should have a detailed statement with regard to this amount of \$725,000.—A. The company does distribute the so-called fee, Mr. Gour, among the several component items—salaries, rent and so on. The actual additional amount is also known every year. Having determined the fee *in toto* it is then distributed among the several component items of expenditure.

Q. You know what they charge for the money for finance to these companies?—A. Yes.

Q. How much interest per year, and so on?—A. Yes.

Q. You have details of all their expenses?—A. Yes.

Q. But you cannot know if the figures are exact in respect of the rent they pay so on; you are just given an amount of so much money?—A. That is true, but our examiners can get the full details at the company's headquarters in Toronto, and they do.

Q. And, further, you would be able to find out details of any service included in that figure of \$725,000, or if there were to be an over-charge you could decide whether it was an over-charge or not, and if necessary you could take the matter up?—A. Perhaps I might say again that in mentioning this matter in the first place, I did so merely as a matter of information to the committee because it is a unique practice. Personally I do not think it will make any real difference in determining the rate formula because this company has a level of earnings which would enable it to "live" under rates that perhaps no other company could live under, anyhow.

By Mr. Monteith:

Q. With regard to this fee, Mr. MacGregor—this charge of \$725,000—is it broken down on the basis of a monthly period which varies, or is it just an annual rate broken down and distributed among the accounts of the Canadian company once a year?—A. The company only files a statement to the department once a year. I must admit that I have not personally inspected the books of this company at the head office, but my impression is that it is determined monthly.

By Mr. Vincent:

Q. What is the rate of interest charged by the parent company to the Canadian company.—A. For borrowed money?

Q. Yes.—A. $4\frac{3}{4}$ per cent since 1954.

Q. And these expenses are paid on the earnings of the company?—A. The payment by companies for borrowed money is reflected in the expenditure in the financial statement.

Q. Why this service charge? Instead of a fee of \$725,000 could they not just charge the rate of interest that would permit the company to take care of the supervision and all expenses?—A. I think the answer is that the services of the parent organization in providing borrowed money are only one of the services that the parent organization is said to furnish. There are many others—research, the training of personnel and so on, which were mentioned at the last meeting.

By Mr. Fleming:

Q. And it would not contribute to accuracy in your statement to include charges for services of that kind in the interest being paid on borrowed money?—A. No.

Q. It would defeat your purpose of ensuring accuracy in the statement?—A. I quite agree.

By Mr. Cameron (Nanaimo):

Q. I wonder if you would turn to table 5 of your statement, Mr. MacGregor. I notice there there are two companies listed—Household Finance and Personal Finance, and figures are given relating to borrowed money. When you obtained this information, that, for instance, the Personal Finance Company borrowed from the parent company some \$32 million and Household Finance borrowed

some \$45,400,000, was it your understanding that that was the parent company's own funds?—A. No; the money that the licensed company—Household Finance Corporation of Canada—borrows from its parents and affiliates, comes, I believe from Household Securities Limited, which is an intermediate holding company, and from the parent company in Chicago, Household Finance Corporation. Household Finance Corporation, the parent company in Chicago, has in the past borrowed both in Canada and in the U.S.A. It has borrowed in Canada from institutional investors like insurance companies—both Canadian companies and American companies doing business in Canada—but I believe that conditions more recently have been such that the company has been borrowing exclusively in the U.S.A. Household Securities Limited also borrows from the parent and I have no doubt lends to the unlicensed Canadian company as well as to the licensed company.

Q. Well, this sum of \$45 million odd would be money originating in the public market, would it?—A. Yes.

Q. Or does it represent funds already in the possession of the parent company or its affiliates?—A. I would say it is money borrowed by the parent, not merely in 1955 but over the years, and this is the present aggregate indebtedness of the licensee to the two companies—Household Securities Limited and the parent in Chicago, Household Finance Corporation.

By Mr. Argue:

Q. Mr. Chairman, I wonder if Mr. MacGregor could tell the committee why, in his opinion, the company has not followed his suggestion in reducing the amount?—A. I think there has been some misunderstanding somewhere. We thought it was to be a real reduction in the formula; but it does not seem to have turned out that way. Where the misunderstanding arose, frankly I cannot say. I do not believe that the misunderstanding was in the Department of Insurance. I think it arose somewhere within the company, but whether in Toronto, Chicago, or between the two, I cannot say. One would have to ask the company itself to answer that question.

Mr. FLEMING: I am sure it would not be in Toronto. Misunderstandings never arise in Toronto!

The CHAIRMAN: Some other peculiar things happen in Toronto.

By Mr. Argue:

Q. Might I ask whether Mr. MacGregor thinks there is any particular advantage to the company in keeping this supervisory amount relatively large?—A. Well, it is a deep-rooted accounting practice to which the parent company, and the organization as a whole, is obviously closely wedded. I do not think that the Department of Insurance will press the issue any further.

Q. From your knowledge would you have any idea whether it is to the financial advantage of the company to have this amount listed as an expense to the Canadian operations?—A. I do not think that the charging of the item itself is the important thing. So far as the efficiency of operations is concerned, it is the method of operation itself that really counts. Having regard to the fact that this company has built up its business in Canada so that it is now by far the largest operator and has relatively the best earnings, it is pretty difficult to criticize its methods of operation. We never have criticized its general methods of operation. We have regarded this fee primarily as an accounting matter. We have never suggested to the company that it should change its methods of operation; that is primarily for the company itself to decide.

Q. If this item was wiped out entirely in the company's return to the Department of National Revenue, do you think that the changed over-all result would be a cost to the whole organization?—A. Would you mind repeating that?

Q. If the company, in its income tax return to the Department of National Revenue, eliminated the \$725,000 entirely, do you think that that would improve the financial position of the whole organization—Canadian and American subsidiaries and so on—or would it cost the company some money?—A. I do not think it would improve the profit position of the organization as a whole. I am not enough of a tax expert to know what advantage or disadvantage would arise taxwise by reason of this practice. Superficially at least, the more expenses put through the Canadian company, the smaller the taxes paid in Canada. But I would assume that there is a compensating increase in their tax burden in the U.S.A.

Q. You do not know how you would compare it?—A. I should not care to guess. I am not sufficiently familiar with all of the tax wrinkles, certainly not in the U.S.A.

By Mr. Monteith:

Q. The withholding tax on dividends would have an effect there, would it not?—A. Of course, any Canadian licensee may borrow from its parent—

Q. No—on dividends paid by the subsidiary company to the parent company.

The CHAIRMAN: They are only 5 per cent.

The WITNESS: The withholding tax of 15 per cent would apply to dividends and to interest paid by the Canadian company to the parent for money borrowed.

By Mr. Fleming:

Q. It depends on the currency in which the dividend is declared.—A. That is true. But this should also be considered: the Income Tax Act was amended a couple of years ago so as to waive, in effect, the withholding tax where the money is borrowed in Canada by the parent and the parent is acting as borrowing agent for the Canadian licensee.

The CHAIRMAN: That is allowed under the Canada-United States Reciprocal Tax Agreement.

By Mr. Follwell:

Q. If I understood you correctly, Mr. MacGregor, you said that you reported this particular item of the fee to this committee only as a matter of information and not particularly with a view to being critical of the company, and that you felt it was unique in the company's operation and that the committee should have the information. Am I correct?—A. That is correct.

By Mr. Thatcher:

Q. Mr. Chairman, I think there is a fairly important principle involved here, that an American company has invested a good deal of money in Canada and if they feel that a certain sum is needed for a supervisory purpose, it seems to me that that is their own business; and again there could be a danger that American investment in Canada might be hurt if any government department tried to tell them that they could not protect their investment by charging these particular fees.—A. We have never told them that they could not, and they have not changed their practice.

By Mr. Macnaughton:

Q. It comes down to this, that there is a difference of opinion between the department and the management. You think it should be one way and they think it should be the other way; that is a matter of opinion.—A. I do not look upon it as a question of management policy, but rather as a question of accounting. Certainly we have nothing to say about management policy.

Q. We could argue about accounting methods from here to doomsday.

The CHAIRMAN: Are there any further questions?

By Mr. Follwell:

Q. Mr. Chairman, I have a question arising out of what Mr. Fleming said to Mr. MacGregor and Mr. MacGregor's answer. I think Mr. MacGregor said to Mr. Fleming that the supervisory fee was proportioned on a certain formula and that it was possible that the expenses in the U.S. might be a little bit higher than in Canada and that, therefore, the Canadian company would bear a little heavier portion than they should. But, Mr. MacGregor, would you agree that, conversely, if the expenses of operation are larger they might be more efficient in the United States and that there might be an advantage to the Canadian operation on the same formula?—A. I think I would agree except that on the whole we believe that expenses generally are lower in Canada than in the U.S.A. While I am not intimately familiar with the size of the operations of the member companies of Household Finance Corporation in the U.S.A., I would be surprised if any of them are as large as the Canadian companies.

Q. But in sum total due operation in the U.S.A. is much larger?—I think about two to one in the aggregate, but they are spread amongst a far larger number of operating units over there than here. I cannot believe that the general expense level in an operating units in the U.S.A. is as low as it is in the two companies in Canada.

Q. You cannot believe that, but it might be a possibility that that is so?—A. On the average, I do not think that it can be so.

By Mr. Fleming:

Q. Mr. MacGregor, when you put this reference in on page 26 of your statement I am sure that you did not foresee that it would have the committee stalled on it for two and a half meetings.—I had no idea of that whatever.

Q. The point which I wish to have clear is this: if the bill which has been referred to this committee is enacted in its present form, is it going to have any bearing whatever on this question of the fee, whether you call it supervisory, headquarters or any thing else?—A. I do not think so, Mr. Fleming. None at all,

Mr. PHILPOTT: Then I think we should leave this and get on with the rest of it.

The CHAIRMAN: You think it is time, do you?

Mr. Philpott: Yes, well past the time.

The CHAIRMAN: If there are no further questions we will go on with Mr. MacGregor's statement at page 26.

The WITNESS: Table 6 shows the average annual rates earned on the different classes of business. For loans over \$500, although the prevailing rate is 2 per cent per month, the lower annual rate shown for the Canadian Acceptance Company is explained by the fact that that company charges only $1\frac{1}{2}$ per cent per month on all such loans. Personal Finance adopted a new scale late in

1955 for loans over \$500 which grades down to the equivalent of 1.73 per cent per month for a \$1,000 loan and 1.65 per cent for a \$1,500 loan. Commercial Credit Plan and Union Finance charge $1\frac{3}{4}$ per cent per month on all loans over \$500, while Niagara Finance has a graded scale running down to about 1.8 per cent for a \$1,000 loan and 1.7 per cent for a \$1,500 loan.

By Mr. Henderson:

Q. What percentage of the loans does that group represent?—A. I am afraid it would take a little time to give it to you accurately; perhaps 25 to 30 per cent of the loans over \$500 would be made by the companies I have mentioned, that is by Personal, Commercial Credit, Union Finance, and Niagara.

Several licensees in the "All Other" group also charge somewhat less than 2 per cent on the larger loans but a few charge more. Equitable Finance charges only $1\frac{3}{4}$ per cent on small loans as well as loans over \$500.

By Mr. Macnaughton:

Q. May I ask one or two questions: several firms in the other group also charge less than 2 per cent per month on the larger loans, but a few charge more than that. Would you give us the names of the companies which charge 2 per cent per month, and those which charge more than 2 per cent per month?

Mr. FLEMING: And could you tell us what the rate is that they do charge?

By Mr. Macnaughton:

Q. Yes, I was coming to that, and the types of loans, and the security.—A. Century Credit charges $2\frac{1}{2}$ per cent for loans of twelve months, and 2 per cent, approximately for loans of 24 months.

Fairway Finance uses a rate scale that approximates to $2\frac{1}{4}$ per cent per month.

Merchants Finance works on the basis of a percentage added at the time the loan is made, and the so-called add-on may be as high as 20 per cent which means an effective monthly rate of about 3 per cent. But we have instances in that case where, because of the absence of an appropriate refund when the loan is refinanced during its currency, the effective rate is as high as 5 per cent per month over a series of successive loans.

By Mr. Argue:

Q. What does the 5 per cent per month work out to as an annual rate?

The CHAIRMAN: You mean on a decreasing bill?

The WITNESS: I would have to look it up. I suppose about 85 per cent.

Mr. MACNAUGHTON: Are there any others?

By Mr. Fleming:

Q. Where is that company doing business?—A. Toronto.

Q. I did not hear you give the name of the company.—A. Merchants Finance.

Q. Oh!—A. It has only one office.

The CHAIRMAN: As a counsel, Mr. Fleming you should know that you should never ask a question unless you know the answer.

Mr. FLEMING: But I did not hear him give the name of the company.

By Mr. Follwell:

Q. What type of risk would they take on that basis?—A. They justify that rate on the ground that they are lending to people on doubtful security. But

I have seen a loan secured by an endorser as well as by a chattel mortgage on furniture and on a truck that was not very old. These were all security for a single loan where the charge was about 3 per cent per month.

Mr. GOUR (*Russell*): That is a sham!

By Mr. Macnaughton:

Q. Would that be on a second mortgage loan?—A. Not necessarily; it might be, but not necessarily.

By Mr. Thatcher:

Q. Would you care to comment on how those particular rates would compare with similar rates in the United States? Would they be higher or lower?—A. Might I just finish the list first? There are not many more, perhaps no more?

Q. Yes.—A. I think those are the main instances where the rates charged on loans over \$500 exceed 2 per cent per month as far as licensees are concerned.

By the Chairman:

Q. How many were there out of that total which charged more than 2 per cent?—A. Three, but I may say that these rates were given in reply to a circular sent out for this particular purpose, and not every licensee returned the circular, so that in some cases I cannot say for sure what rates are currently charged.

Q. This only applies to the licensees?—A. That is right.

Mr. ARGUE: I think the rates which have been listed are absolutely stunning! I had no idea such rates were charged.

By Mr. Macnaughton:

Q. Perhaps it would help if I were permitted to finish my questioning. How long were these loans made for, usually? Were they for three year periods, or for longer periods?—A. Probably 24 months would be the most common plan, but I have seen some instances where the first loan might be for 12 or 15 months, and then during its currency it was increased to a larger sum, and the term was likewise increased, but I would think that the maximum term would never exceed 36 months, and probably it would never exceed 30 months.

By Mr. Thatcher:

Q. Could you get to my question of how these rates would compare with American rates?—A. I am afraid I cannot give you any precise information concerning the rates charged by small loan licensees in the United States on larger loans in that country. Generally speaking the small loan legislation over there applied only to loans of \$300 or less in older times, but more recently to \$500 or less. More recently still, there has been a distinct tendency to increase the scope of the act in several states. The maximum now in some states is \$1,000, and in others \$1,500, while in still others, \$2,500. In California it is \$5,000. The states generally authorize a graded scale. Generally speaking, I would say that the maximum rates authorized are higher than the graded scale in the present bill.

Q. How would those rates compare to the rates we have in Canada today? Are their rates higher or lower? I mean their maximum, for instance, on these various loans; are they higher or lower than what we have in Canada today?

By Mr. Benidickson:

Q. Between now and the time of our next meeting would it be possible for Mr. MacGregor to make up a compilation for the committee of such information as he has on hand with respect to United States loans in this field?—A. I can readily give you a summary of the rates charged in the States. I have them here. I think what you are looking for is the effective rate according to the graded scale.

By Mr. Thatcher:

Q. I want to know what the British legislation provides for, and what the legislation provides for with respect to the maximum interest rate on such a loan, and on a loan, let us say, of \$1000, and so on. I want to know how our rates compare with theirs at the moment.—A. I think I can give that to you at this meeting, and I shall be glad to table a summary of the maximum permissible rates in the United States.

Q. Yes.—A. It may be that there have been some changes made in 1956, but I think that this summary is accurate and generally up to date.

Q. You made a general statement, did you not, that they are higher at the moment in the States than they are in Canada, or did you?—A. Generally speaking the maximum permissible rates for loans up to, let us say, \$500 are higher in the United States than in Canada, but most of the states have adopted a graded formula whereby for the larger loans a very much smaller rate applies.

There are many states which prescribe a rate of one half of 1 per cent, or five-sixths of 1 per cent, or one per cent per month on the element of a loan above \$300 or \$500.

Q. I think the suggestion made by Mr. Benidickson is a good one. I think the committee should have detailed information on it for those two countries so we might be able to gauge how our own rates look as compared to the others.

Mr. ARGUE: I was asking a question when I was interrupted. Might I complete it?

Mr. FLEMING: I wish to ask about the summary which Mr. MacGregor is to provide us for the next meeting.

The CHAIRMAN: I think we will have time for both.

By Mr. Fleming:

Q. The acoustics of this room being as bad as they are I could not hear whether you said you would prepare this information on several states of the Union or on the several states of the Union. I think we should have it in as complete form as the information may be available. It would be of little assistance to us if it was just for several states of the Union. Can you give us that information complete, or virtually complete, with respect to all states of the Union?—A. I think so.

By Mr. Macnaughton:

Q. And for the United Kingdom also?—A. The situation there is different.

Q. I know; and that is why I want to compare it.—A. I can tell you what the situation is in Great Britain. It is hardly a case where any table need be prepared. Under the Money-Lenders Act a rate of 4 per cent per month is mentioned.

By Mr. Thatcher:

Q. In Great Britain?—A. In Great Britain.

Q. Four per cent per month?—A. Four per cent per month is mentioned as the turning point in respect of the onus of proving whether the charge is usurious or not. If the lender charges more than 4 per cent it is presumed to be usurious, and the onus is on the lender to show that it is not. However, if the rate charged is less than 4 per cent, the borrower may still prove that the rate charged is usurious, but the onus is on the borrower in that case.

Q. Then our present rates are away under Great Britain's, are they?—A. So far as a legislative maximum is concerned, in a sense, yes. There is really no legislative maximum prescribed in Britain at all.

By Mr. Argue:

Q. Mr. Chairman, I want to ask whether the companies that Mr. MacGregor listed, that charge more than 2 per cent per month on certain loans, in fact have any large losses, or any large loss ratio? Does their loss ratio stand out in relation to the losses of the companies generally?—A. No, I would not say their losses are substantially higher; but certainly in one case, at least, their expenses are higher.

Q. So that if they had followed the general pattern as shown by the information that you have, from different sources,—not necessarily this committee—their loss ratio might be a quarter of 1 per cent?—A. It might be higher than that.

Q. It might be one-half of 1 per cent?—A. It might be 1 per cent.

Q. Or even 1 per cent?—A. I would have to look up the actual loss ratio for those cases.

Q. So that the business they are doing does in fact carry with it a little more risk than in the general small loans business? I think it is borne out—A. I would admit that in the case of the lender mentioned that charges a substantially higher rate than all others, it probably does make some loans where there is a higher degree of risk.

By Mr. Quelch:

Q. Are their profits substantially higher?—A. Profits?

Q. Yes.—A. Their apparent profits are about the same as some others. In the case of Merchants Finance Corporation the net profits, after interest and taxes, as compared with the proprietary interest, that is to say the capital, the balance of the profit and loss account and so on, probably run about 25 per cent per annum; but that is after a very heavy charge for salaries.

By Mr. Argue:

Q. On the paid up capital it is over 100 per cent—their average paid up capital, which is listed in your table as being \$38,100 for the Merchants Finance Corporation and their net profit, after income taxes is \$41,651.—A. That licensee is hardly typical. It does charge high rates and has high expenses.

By Mr. Regier:

Q. I wonder if it is possible for this committee to have a copy of the financial statement made to the superintendent of insurance by the Merchants Finance Corporation? Is that public property?—A. All of the important elements in that statement are included in the annual report of the Department of Insurance, Mr. Regier.

Q. What I meant—

By Mr. Fleming:

Q. In looking at this matter of the Merchants Finance Corporation how, unless it is engaged in a specialized type of business, can it carry on successfully in view of the competition of the other loan companies which are offering money at lower rates?—A. I am afraid that borrowers are not as selective or as discriminating as they might be. Once a connection has been established, I think they are prone to return to the same lender.

The CHAIRMAN: It is after 1 o'clock. The committee is adjourned to the call of the Chair.

APPENDIX A LICENSEES UNDER THE SMALL LOANS ACT

TABLE 1
Abstract of Small Loans Experience 1940 to 1955

| | 1940 | 1941 | 1942 | 1943 | 1944 | 1945 | 1946 | 1947 | 1948 | 1949 | 1950 | 1951 | 1952 | 1953 | 1954 | 1955 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|
| 1 Number of licenses Dec. 31 | 3 | 2 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Money-lenders | 3 | 2 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Totals | 3 | 2 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| 2 Number of small loans made during year | 101,014 | 115,556 | 126,070 | 144,521 | 162,242 | 180,781 | 245,887 | 284,612 | 275,156 | 331,710 | 321,701 | 306,106 | 268,879 | 284,118 | 213,249 | 215,254 |
| Money-lenders | 49,023 | 50,438 | 57,272 | 65,000 | 71,309 | 84,175 | 103,791 | 128,294 | 116,976 | 141,431 | 141,921 | 131,706 | 106,612 | 106,612 | 88,461 | 121,882 |
| Totals | 149,037 | 165,994 | 183,342 | 209,520 | 233,551 | 264,956 | 358,678 | 412,906 | 392,132 | 473,141 | 463,622 | 438,812 | 375,491 | 390,729 | 301,710 | 337,136 |
| 3 Amount of small loans made during year | \$ 13,453,217 | \$ 15,011,890 | \$ 16,797,124 | \$ 19,328,553 | \$ 23,684,406 | \$ 27,767,760 | \$ 40,188,730 | \$ 50,761,343 | \$ 49,102,103 | \$ 68,393,295 | \$ 105,746,067 | \$ 112,027,315 | \$ 117,924,785 | \$ 134,802,032 | \$ 160,680,031 | \$ 182,768,121 |
| Money-lenders | \$ 6,991,009 | \$ 8,006,867 | \$ 8,788,000 | \$ 10,377,014 | \$ 11,900,944 | \$ 14,122,751 | \$ 21,282,841 | \$ 23,282,841 | \$ 21,281,871 | \$ 29,384,456 | \$ 43,541,911 | \$ 45,906,101 | \$ 49,196,663 | \$ 59,703,511 | \$ 71,010,878 | \$ 84,979,779 |
| Totals | \$ 20,444,226 | \$ 23,018,757 | \$ 25,585,124 | \$ 29,705,567 | \$ 35,585,350 | \$ 41,890,511 | \$ 61,471,571 | \$ 74,044,184 | \$ 70,283,974 | \$ 97,777,550 | \$ 149,287,978 | \$ 157,933,416 | \$ 167,121,448 | \$ 194,505,543 | \$ 231,690,909 | \$ 267,747,900 |
| 4 Average small loan made during year | \$ 132 | \$ 132 | \$ 133 | \$ 134 | \$ 146 | \$ 154 | \$ 164 | \$ 172 | \$ 180 | \$ 196 | \$ 203 | \$ 210 | \$ 223 | \$ 228 | \$ 236 | \$ 231 |
| Money-lenders | \$ 148 | \$ 159 | \$ 154 | \$ 157 | \$ 162 | \$ 168 | \$ 172 | \$ 173 | \$ 180 | \$ 196 | \$ 203 | \$ 210 | \$ 223 | \$ 228 | \$ 236 | \$ 231 |
| All Licensees | \$ 136 | \$ 140 | \$ 139 | \$ 141 | \$ 151 | \$ 158 | \$ 163 | \$ 170 | \$ 187 | \$ 198 | \$ 203 | \$ 210 | \$ 223 | \$ 228 | \$ 236 | \$ 231 |
| 5 Number of small loans amounts outstanding Dec. 31 | 66,554 | 81,378 | 90,319 | 99,522 | 107,712 | 117,141 | 139,611 | 149,008 | 239,181 | 289,161 | 299,021 | 281,611 | 208,511 | 222,211 | 151,061 | 131,171 |
| Money-lenders | 32,686 | 37,800 | 41,371 | 45,783 | 51,210 | 58,363 | 71,215 | 72,315 | 119,961 | 145,415 | 146,421 | 131,421 | 99,096 | 106,761 | 74,561 | 57,579 |
| Totals | 99,239 | 119,178 | 131,720 | 145,305 | 158,922 | 175,704 | 210,826 | 221,323 | 359,142 | 434,576 | 445,442 | 413,032 | 307,607 | 328,972 | 225,622 | 188,750 |
| 6 Amount of small loans balance outstanding Dec. 31 | \$ 2,016,336 | \$ 2,537,414 | \$ 2,883,399 | \$ 3,268,506 | \$ 3,548,408 | \$ 4,113,913 | \$ 5,333,300 | \$ 5,822,012 | \$ 11,718,811 | \$ 14,121,421 | \$ 14,121,421 | \$ 13,888,811 | \$ 10,611,961 | \$ 11,811,961 | \$ 8,822,811 | \$ 8,822,811 |
| Money-lenders | \$ 1,016,336 | \$ 1,267,414 | \$ 1,413,399 | \$ 1,618,506 | \$ 1,768,408 | \$ 2,013,913 | \$ 2,533,300 | \$ 2,822,012 | \$ 5,822,012 | \$ 7,121,421 | \$ 7,121,421 | \$ 6,888,811 | \$ 5,011,961 | \$ 5,611,961 | \$ 4,022,811 | \$ 4,022,811 |
| Totals | \$ 3,032,672 | \$ 4,794,828 | \$ 5,296,798 | \$ 6,887,012 | \$ 8,066,816 | \$ 9,127,826 | \$ 7,866,600 | \$ 8,644,024 | \$ 17,540,622 | \$ 21,242,842 | \$ 21,242,842 | \$ 20,777,692 | \$ 15,623,922 | \$ 17,423,922 | \$ 12,845,622 | \$ 12,845,622 |
| 7 Income earned on small loans during year | \$ 1,006,728 | \$ 1,642,823 | \$ 1,801,700 | \$ 2,017,070 | \$ 2,197,147 | \$ 2,390,845 | \$ 2,920,851 | \$ 4,289,821 | \$ 4,129,121 | \$ 5,819,121 | \$ 10,119,121 | \$ 12,819,121 | \$ 15,619,121 | \$ 18,419,121 | \$ 17,219,121 | \$ 15,019,121 |
| Money-lenders | \$ 508,333 | \$ 911,087 | \$ 1,021,114 | \$ 1,132,617 | \$ 1,237,349 | \$ 1,401,901 | \$ 1,602,217 | \$ 2,027,091 | \$ 1,827,421 | \$ 2,519,121 | \$ 4,619,121 | \$ 5,819,121 | \$ 7,019,121 | \$ 8,219,121 | \$ 7,019,121 | \$ 6,019,121 |
| Totals | \$ 1,515,061 | \$ 2,553,910 | \$ 2,822,814 | \$ 3,149,687 | \$ 3,434,496 | \$ 3,792,746 | \$ 4,521,696 | \$ 6,316,912 | \$ 5,946,542 | \$ 8,338,242 | \$ 14,738,242 | \$ 18,638,242 | \$ 22,638,242 | \$ 26,638,242 | \$ 24,238,242 | \$ 21,038,242 |
| 8 Ratio of income earned to average balance outstanding during year (%) | — | 23.8% | 23.6% | 22.4% | 22.9% | 21.9% | 19.5% | 19.4% | 21.1% | 21.1% | 21.1% | 21.1% | 21.1% | 21.1% | 21.1% | 21.1% |
| Money-lenders | — | 23.4% | 23.6% | 22.4% | 22.9% | 21.9% | 19.5% | 19.4% | 21.1% | 21.1% | 21.1% | 21.1% | 21.1% | 21.1% | 21.1% | 21.1% |
| All Licensees | — | 23.4% | 23.6% | 22.4% | 22.9% | 21.9% | 19.5% | 19.4% | 21.1% | 21.1% | 21.1% | 21.1% | 21.1% | 21.1% | 21.1% | 21.1% |
| 9 Ratio of net amount written off to average balance outstanding during year (%) | — | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% |
| Money-lenders | — | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% |
| All Licensees | — | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% |
| 10 Ratio of net income in excess for bad debts to average balance outstanding during year (%) | — | 2.7% | 0.8% | (-10.1%) | 0.1% | (-10.3%) | 1.4% | 0.5% | 0.5% | 0.4% | 0.6% | 0.6% | 0.6% | 0.6% | 0.6% | 0.6% |
| Money-lenders | — | 2.7% | 0.8% | (-10.1%) | 0.1% | (-10.3%) | 1.4% | 0.5% | 0.5% | 0.4% | 0.6% | 0.6% | 0.6% | 0.6% | 0.6% | 0.6% |
| All Licensees | — | 2.7% | 0.8% | (-10.1%) | 0.1% | (-10.3%) | 1.4% | 0.5% | 0.5% | 0.4% | 0.6% | 0.6% | 0.6% | 0.6% | 0.6% | 0.6% |
| 11 Ratio of net amount written off plus charge reserves for bad debts to average balance outstanding during year (%) | — | 2.8% | 0.8% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% |
| Money-lenders | — | 2.8% | 0.8% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% |
| All Licensees | — | 2.8% | 0.8% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% |
| 12 Average cost per outstanding account per month (includes income tax, net write-offs not transfers to reserves for bad debts but includes interest on borrowed funds) | — | \$ 1.11 | \$ 1.29 | \$ 1.27 | \$ 1.19 | \$ 1.19 | \$ 1.11 | \$ 1.11 | \$ 1.11 | \$ 1.11 | \$ 1.11 | \$ 1.11 | \$ 1.11 | \$ 1.11 | \$ 1.11 | \$ 1.11 |
| Money-lenders | — | \$ 1.04 | \$ 1.03 | \$ 1.02 | \$ 1.01 | \$ 1.01 | \$ 0.98 | \$ 0.98 | \$ 0.98 | \$ 0.98 | \$ 0.98 | \$ 0.98 | \$ 0.98 | \$ 0.98 | \$ 0.98 | \$ 0.98 |
| All Licensees | — | \$ 1.17 | \$ 1.31 | \$ 1.29 | \$ 1.11 | \$ 1.11 | \$ 1.11 | \$ 1.11 | \$ 1.11 | \$ 1.11 | \$ 1.11 | \$ 1.11 | \$ 1.11 | \$ 1.11 | \$ 1.11 | \$ 1.11 |
| 13 Gross earnings on small loans business (before paying income taxes and interest on borrowed money but after net write-offs not transfers to reserves for bad debts) | \$ 107,291 | \$ 68,790 | \$ 94,710 | \$ 1,172,712 | \$ 1,067,012 | \$ 1,217,912 | \$ 1,118,212 | \$ 1,900,012 | \$ 1,607,012 | \$ 2,181,012 | \$ 3,211,012 | \$ 3,701,012 | \$ 4,101,012 | \$ 4,101,012 | \$ 3,101,012 | \$ 2,101,012 |
| Money-lenders | \$ 50,830 | \$ 270,510 | \$ 291,810 | \$ 1,076,710 | \$ 987,010 | \$ 1,117,910 | \$ 1,118,210 | \$ 1,900,010 | \$ 1,607,010 | \$ 2,181,010 | \$ 3,211,010 | \$ 3,701,010 | \$ 4,101,010 | \$ 4,101,010 | \$ 3,101,010 | \$ 2,101,010 |
| Totals | \$ 158,121 | \$ 95,580 | \$ 125,520 | \$ 2,249,422 | \$ 2,054,022 | \$ 2,335,822 | \$ 2,236,422 | \$ 3,807,022 | \$ 3,214,022 | \$ 4,362,022 | \$ 6,422,022 | \$ 7,402,022 | \$ 7,802,022 | \$ 8,202,022 | \$ 6,202,022 | \$ 4,202,022 |
| 14 Ratio of gross earnings to average balance outstanding during year (%) | 10.0% | 12.1% | 12.6% | 12.2% | 12.2% | 11.0% | 10.8% | 10.8% | 10.8% | 10.8% | 10.8% | 10.8% | 10.8% | 10.8% | 10.8% | 10.8% |
| Money-lenders | 10.0% | 12.1% | 12.6% | 12.2% | 12.2% | 11.0% | 10.8% | 10.8% | 10.8% | 10.8% | 10.8% | 10.8% | 10.8% | 10.8% | 10.8% | 10.8% |
| All Licensees | 10.0% | 12.1% | 12.6% | 12.2% | 12.2% | 11.0% | 10.8% | 10.8% | 10.8% | 10.8% | 10.8% | 10.8% | 10.8% | 10.8% | 10.8% | 10.8% |
| 15 Net Profit (after income tax, interest on borrowed money, net write-offs and net transfers to reserves for bad debts) | \$ 18,902 | \$ 219,851 | \$ 120,580 | \$ 206,110 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 |
| Money-lenders | \$ 18,902 | \$ 219,851 | \$ 120,580 | \$ 206,110 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 |
| Totals | \$ 18,902 | \$ 219,851 | \$ 120,580 | \$ 206,110 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 | \$ 211,010 |

Note 1.—In 1945, items 12 and 15 were distorted by a refund of income tax to a small loans company in the amount of \$330,607.

Note 2.—In 1946, the division of business between small loans companies and money-lenders was substantially altered by the withdrawal of all the 1946 new lenders from the small loans field and the transfer of its entire small loans business to an associated small loans company.

Note 3.—The reduction in the rates of income and earnings between 1944 and 1950 was attributable mainly to reductions in the monthly rates charged by most of the large licensees during 1945 and 1948 and 1949 and 1950.

Note 4.—All figures for 1955 are subject to correction.

APPENDIX "B"

LICENSEES UNDER THE SMALL LOANS ACT

TABLE 2

Abstract of Experience—Business other than small loans—1950 to 1955.
(Loans over \$500, conditional sale agreements, etc.)

| | | 1950 | 1951 | 1952 | 1953 | 1954 | 1955 | |
|---|--|--|--|--|--|--|--|---|
| 1 | Amount of balances—other than small loans—outstanding Dec. 31. | Small Loans Companies..... Money-lenders..... Totals..... | \$ 5,156,705 19,091,024 \$24,247,729 | \$ 8,893,116 20,080,084 \$28,974,099 | \$14,617,740 34,869,353 \$49,584,133 | \$23,106,616 42,852,312 \$66,057,928 | \$29,394,323 40,430,349 \$75,824,672 | \$44,411,633 65,112,608 \$109,523,731 |
| 2 | Income earned on business other than small loans. | Small Loans Companies..... Money-lenders..... Totals..... | \$ 769,484 2,912,533 \$ 3,682,016 | \$ 1,715,570 3,580,061 \$ 5,295,631 | \$ 2,564,108 5,329,560 \$ 7,893,668 | \$ 4,380,802 6,811,744 \$11,102,546 | \$ 5,090,320 7,916,962 \$13,907,282 | \$ 8,064,371 10,290,455 \$18,354,826 |
| 3 | Ratio of income earned to average balances outstanding during year (%). | Small Loans Companies..... Money-lenders..... All Licensees..... | 19.8% 16.7 17.2% | 24.3% 17.9 19.6% | 21.8% 19.0 19.9% | 23.2% 17.5 19.4% | 22.8% 17.7 19.6% | 21.9% 18.5 19.8% |
| 4 | Ratio of net amounts written off to average balances outstanding during year (%). | Small Loans Companies..... Money-lenders..... All Licensees..... | 0.5% 0.7 0.7% | 0.2% 1.0 0.8% | 0.2% 0.6 0.5% | 0.2% 0.5 0.4% | 0.2% 0.5 0.4% | 0.2% 0.5 0.4% |
| 5 | Ratio of net increase in reserves for bad debts to average balances outstanding during year (%). | Small Loans Companies..... Money-lenders..... All Licensees..... | 4.3% 0.6 1.3% | 0.3% 0.4 0.4% | 0.7% 0.8 0.8% | 1.2% 0.6 0.7% | 0.6% 0.5 0.6% | 1.2% 0.6 0.8% |
| 6 | Ratio of net amounts written off plus net increase in reserves for bad debts to average balances outstanding during year (%). | Small Loans Companies..... Money-lenders..... All Licensees..... | 4.7% 1.3 2.0% | 0.5% 1.4 1.2% | 0.8% 1.4 1.3% | 1.3% 1.0 1.1% | 0.8% 1.0 0.9% | 1.4% 1.1 1.2% |
| 7 | Gross earnings on business other than small loans (before paying income taxes and interest on borrowed money but after net write-offs and net transfer to reserves for bad debts). | Small Loans Companies..... Money-lenders..... Totals..... | \$ 400,258 1,821,236 \$ 1,721,494 | \$ 1,220,986 1,612,415 \$ 2,833,401 | \$ 1,704,517 2,536,992 \$ 4,321,609 | \$ 2,384,080 3,307,334 \$ 5,892,014 | \$ 3,561,251 4,264,781 \$ 7,826,035 | \$ 4,561,331 5,079,385 \$ 9,640,718 |
| 8 | Ratio of gross earnings to average balances outstanding during year (%). | Small Loans Companies..... Money-lenders..... All Licensees..... | 10.3% 7.6 8.1% | 17.3% 8.0 10.5% | 15.0% 8.5 10.0% | 12.0% 9.5 10.2% | 13.6% 9.5 11.0% | 12.4% 9.1 10.4% |
| 9 | Net Profit (after income tax, interest on borrowed money, net write-offs and net transfers to reserves for bad debts.) | Small Loans Companies..... Money-lenders..... Totals..... | \$ 166,721 451,880 \$ 621,607 | \$ 374,270 473,421 \$ 847,697 | \$ 572,931 785,390 \$ 1,358,521 | \$ 602,743 1,175,227 \$ 1,777,970 | \$ 1,240,179 1,600,764 \$ 2,740,942 | \$ 1,538,540 1,918,755 \$ 3,217,205 |

APPENDIX "C"

TABLE 3

Total Net Profits*—Small Loans Business and Other Business—1950 to 1955

| | 1950 | 1951 | 1952 | 1953 | 1954 | 1955 |
|----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Small Loans Companies..... | 2,334,018 | 2,834,690 | 3,434,028 | 3,832,723 | 4,732,804 | 4,783,995 |
| Money-lenders..... | 619,273 | 607,488 | 974,854 | 1,338,319 | 1,602,682 | 1,558,503 |
| Totals..... | 2,953,291 | 3,402,187 | 4,400,882 | 5,174,042 | 6,335,486 | 6,342,498 |

* After income tax, interest on borrowed money, net write-offs and net transfers to reserves for bad debts.

APPENDIX "D"

LICENSEES UNDER THE SMALL LOANS ACT

TABLE 4

Total Profit, Paid Capital, Surplus Paid In, General Reserves and Balance of Profit and Loss Account
Experienced 1952 to 1955

| Name | Total Profit Before Income Tax | | | | Total Net Profit After Income Tax | | | | **Average Paid Capital | | | | **Average Surplus Paid In | | | | **Average Paid Capital, Surplus Paid In, General Reserves and Balance of P & L Account | | | |
|-------------------------------|--------------------------------|-----------|-----------|-----------|-----------------------------------|-----------|-----------|-----------|------------------------|-----------|-----------|-----------|---------------------------|-----------|-----------|-----------|--|------------|------------|------------|
| | 1952 | 1953 | 1954 | 1955 | 1952 | 1953 | 1954 | 1955 | 1952 | 1953 | 1954 | 1955 | 1952 | 1953 | 1954 | 1955 | 1952 | 1953 | 1954 | 1955 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| SMALL LOANS COMPANIES | | | | | | | | | | | | | | | | | | | | |
| Canadian Acceptance | 70,849 | 79,211 | 60,775 | 11,170 | 33,081 | 34,677 | 31,004 | 23,441 | 250,000 | 250,000 | 250,000 | 325,000 | | | | | 381,674 | 415,553 | 448,251 | 475,417 |
| Commercial Finance | 154,011 | 137,855 | 110,412 | 132,777 | 75,301 | 67,301 | 57,208 | 90,192 | 382,000 | 382,000 | 382,000 | 475,750 | | | | | 1,302,431 | 1,237,000 | 1,175,770 | 1,121,000 |
| Household Finance | 3,952,313 | 5,074,907 | 5,002,395 | 5,041,394 | 2,777,531 | 2,622,907 | 2,654,704 | 2,654,704 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 12,750 | | | | 6,249,156 | 7,196,271 | 7,179,084 | 7,179,084 |
| Personal Finance | 1,431,286 | 1,798,913 | 1,885,712 | 4,052,241 | 316,400 | 683,614 | 1,307,318 | 2,016,811 | 250,000 | 270,000 | 325,000 | 1,000,000 | | 3,900,000 | 9,625,000 | 9,310,000 | 2,000,000 | 1,875,000 | 1,875,000 | 1,875,000 |
| Totals, Small Loans Companies | 7,530,779 | 8,604,882 | 7,938,457 | 9,196,182 | 3,434,538 | 3,835,723 | 4,752,864 | 4,783,969 | 4,570,000 | 4,570,000 | 4,945,000 | 5,321,250 | 12,570 | 5,012,570 | 9,687,570 | 9,363,970 | 9,122,502 | 15,771,796 | 23,634,665 | 25,185,135 |
| MONEY-LENDERS | | | | | | | | | | | | | | | | | | | | |
| Auto Thrift | 12,485 | 12,408 | 21,849 | 20,993 | 9,448 | 9,938 | 16,921 | 16,479 | 77,470 | 80,120 | 81,179 | 81,179 | | | | | 119,607 | 129,476 | 137,903 | 149,182 |
| Refuge Finance | 13,131 | 20,253 | 40,274 | 20,172 | 9,848 | 18,768 | 23,774 | 18,901 | 91,993 | 91,993 | 91,993 | 91,993 | | | | | 40,774 | 71,241 | 91,993 | 111,621 |
| Thrift Finance | 102,831 | 134,625 | 137,708 | 113,255 | 34,801 | 73,625 | 76,776 | 76,776 | 112,000 | 112,000 | 112,000 | 112,000 | | 1,421 | 4,204 | 4,204 | 20,277 | 28,761 | 28,761 | 31,621 |
| Thrift Finance | 1,172 | 1,172 | 1,172 | 1,172 | 1,172 | 1,172 | 1,172 | 1,172 | 2,000 | 2,000 | 2,000 | 2,000 | | | | | 21,025 | 26,861 | 28,761 | 31,621 |
| Thrift Finance | 3,476 | 2,785 | 2,410 | 2,410 | 3,669 | 2,380 | 1,501 | 2,288 | 15,991 | 15,991 | 15,991 | 15,991 | | | | | 40,774 | 71,241 | 91,993 | 111,621 |
| Capital Finance | 21,310 | 15,358 | 19,054 | 19,054 | 9,874 | 9,872 | 10,531 | 9,872 | 10,000 | 10,000 | 10,000 | 10,000 | | | | | 24,024 | 41,074 | 34,176 | 38,701 |
| City Credit | 52,536 | 111,328 | 111,541 | 64,393 | 23,227 | 34,874 | 39,143 | 39,143 | 60,000 | 60,000 | 60,000 | 60,000 | | | | | 111,271 | 117,942 | 107,941 | 112,962 |
| City Loan and Finance | 1,362 | 21 | 1,142 | 1,858 | 4,305 | 2,142 | 1,443 | 1,710 | 31,340 | 30,590 | 30,590 | 30,590 | | | | | 24,024 | 41,074 | 34,176 | 38,701 |
| Colony Acceptance | 3,500 | 8,202 | 3,502 | 16,292 | 1,174 | 6,315 | 6,829 | 10,227 | 25,000 | 25,000 | 25,000 | 25,000 | | | | | 21,781 | 22,602 | 22,602 | 24,122 |
| Commercial Acceptance | 166 | 131 | | | | | | | 25,000 | 25,000 | 25,000 | 25,000 | | | | | 25,000 | 25,000 | 25,000 | 25,000 |
| Commercial Credit Plan | 9,847 | 38,502 | | | 7,203 | 21,700 | | | 25,000 | 25,000 | 25,000 | 25,000 | | | | | 25,000 | 25,000 | 25,000 | 25,000 |
| Commercial Finance | 6,849 | 163,116 | 120,049 | 191,041 | 68,414 | 76,338 | 99,217 | 101,141 | 20,000 | 20,000 | 20,000 | 20,000 | | | | | 110,289 | 194,827 | 138,418 | 138,418 |
| Consolidated Finance | 29,761 | 18,710 | 20,772 | 19,023 | 15,349 | 12,038 | 15,838 | 16,697 | 83,439 | 102,000 | 46,000 | 27,000 | | | | | 29,796 | 61,182 | 65,120 | 68,853 |
| Credit Finance | 18,054 | 5,716 | 16,550 | 6,011 | 12,201 | 4,300 | 13,324 | 3,184 | 100,000 | 100,000 | 100,000 | 100,000 | | | | | 110,111 | 126,771 | 125,400 | 125,934 |
| Credit Finance | 22,011 | 25,841 | 31,106 | 47,022 | 14,478 | 18,972 | 30,322 | 30,322 | 24,444 | 24,444 | 24,444 | 24,444 | | | | | 129,162 | 147,522 | 171,398 | 169,913 |
| Debit Finance | 28,231 | 16,174 | 27,274 | 28,291 | 18,006 | 18,006 | 22,374 | 22,374 | 24,000 | 24,000 | 24,000 | 24,000 | | | | | 29,225 | 26,712 | 28,716 | 29,411 |
| Dollar Finance | 6,104 | 7,082 | 12,893 | 5,822 | 6,621 | 9,066 | 10,000 | 24,761 | 125,313 | 142,753 | 153,819 | 142,753 | | | | | 120,451 | 142,753 | 143,842 | 144,102 |
| Eastern Finance | 1,030 | 1,030 | 1,030 | 1,030 | 1,030 | 1,030 | 1,030 | 1,030 | 2,000 | 2,000 | 2,000 | 2,000 | | | | | 1,030 | 1,030 | 1,030 | 1,030 |
| Ever Finance | 8,188 | 6,521 | 7,827 | 4,920 | 6,943 | 5,209 | 1,551 | 1,947 | 1,947 | 1,947 | 1,947 | 1,947 | | | | | 1,947 | 1,947 | 1,947 | 1,947 |
| Family Finance | 1,210 | 16,171 | 14,009 | 12,202 | 1,210 | 13,728 | 10,438 | 9,800 | 10,000 | 10,000 | 10,000 | 10,000 | | | | | 10,000 | 110,311 | 110,311 | 118,266 |
| Family Loan | 2,054 | 1,121 | 1,121 | 1,121 | 1,121 | 1,121 | 1,121 | 1,121 | 1,121 | 1,121 | 1,121 | 1,121 | | | | | 9,710 | 11,003 | 11,003 | 11,003 |
| General Finance | 3,476 | 5,469 | 3,100 | 6,710 | 2,109 | 4,419 | 4,027 | 3,338 | 20,000 | 20,000 | 20,000 | 20,000 | | | | | 31,710 | 34,927 | 34,927 | 34,927 |
| General Finance, Kentucky | 11,124 | 15,781 | 12,993 | 11,124 | 11,124 | 11,124 | 11,124 | 11,124 | 11,124 | 11,124 | 11,124 | 11,124 | | | | | 9,400 | 10,000 | 10,000 | 10,000 |
| General Finance, Wisconsin | 8,469 | 4,750 | 1,190 | 1,190 | 7,011 | 3,743 | 1,412 | 1,412 | 40,000 | 40,000 | 40,000 | 40,000 | | | | | 40,000 | 15,140 | 15,140 | 22,341 |
| Globe Mortgage | 9,173 | 17,210 | 11,911 | 9,016 | 7,673 | 13,764 | 8,325 | 7,197 | 20,000 | 20,000 | 20,000 | 20,000 | | | | | 29,424 | 30,000 | 30,000 | 30,000 |
| Horse Finance | 1,460 | 3,673 | 1,732 | 2,010 | 1,409 | 3,184 | 3,184 | 3,184 | 10,000 | 10,000 | 10,000 | 10,000 | | | | | 17,781 | 16,475 | 16,475 | 16,475 |
| Independent Finance | 666 | 10,046 | 25,051 | 40,183 | 7,711 | 12,236 | 15,577 | 16,429 | 25,000 | 25,000 | 25,000 | 25,000 | | | | | 23,122 | 62,714 | 62,714 | 117,814 |
| Insurance and Discount | 30,191 | 34,919 | 4,818 | 26,549 | 21,549 | 22,063 | 15,140 | 15,140 | 10,000 | 10,000 | 10,000 | 10,000 | | | | | 179,340 | 199,479 | 221,410 | 232,271 |
| Insurance Finance | 21,410 | 26,065 | 26,575 | 24,943 | 14,271 | 21,229 | 21,638 | 20,972 | 301,948 | 301,948 | 301,948 | 301,948 | | | | | 100,000 | 100,000 | 100,000 | 100,000 |
| Insurance Finance | 21,227 | 28,713 | 12,993 | 11,124 | 11,124 | 11,124 | 11,124 | 11,124 | 11,124 | 11,124 | 11,124 | 11,124 | | | | | 18,400 | 18,400 | 18,400 | 18,400 |
| Mart Finance | 16,840 | 2,501 | 21,781 | 4,412 | 4,778 | 1,011 | 2,151 | 8,834 | 10,000 | 10,000 | 10,000 | 10,000 | | | | | 10,000 | 129,000 | 131,250 | 129,000 |
| Metropolitan & Finance | 18,226 | 38,115 | 22,808 | 2,876 | 2,876 | 25,153 | 2,876 | 2,876 | 28,000 | 28,000 | 28,000 | 28,000 | | | | | 12,962 | 62,616 | 62,616 | 62,616 |
| National Loans | 19,430 | 8,527 | 3,165 | 1,463 | 19,430 | 8,527 | 3,165 | 3,165 | 7,442 | 7,442 | 7,442 | 7,442 | | | | | 1,527 | 17,827 | 192,000 | 221,282 |
| N.T. Finance | 3,796 | 41,299 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | | | | | 20,000 | 20,000 | 20,000 | 20,000 |
| Norfolk Finance | 631,111 | 951,111 | 1,029,522 | 1,269,219 | 310,121 | 852,611 | 677,219 | 321,000 | 13,000 | 13,000 | 13,000 | 13,000 | | | | | 220,201 | 211,265 | 242,342 | 241,120 |
| Northwest Mortgage | 1,727 | 9,660 | 10,000 | 2,445 | 839 | 7,737 | 8,283 | 2,038 | 68,000 | 68,000 | 68,000 | 68,000 | | | | | 62,949 | 7,479 | 162,400 | 162,400 |
| O'Neill Finance | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | | | | | 1,000 | 1,000 | 1,000 | 1,000 |
| Pacific Finance | 6,034 | 6,565 | 10,717 | 9,867 | 6,034 | 6,565 | 8,064 | 7,917 | 15,750 | 15,750 | 15,750 | 15,750 | | | | | 17,848 | 16,000 | 16,000 | 16,000 |
| Paramount Finance | 82,691 | 71,787 | 67,027 | 44,118 | 42,991 | 30,767 | 30,767 | 33,605 | 104,919 | 107,724 | 116,424 | 113,124 | | | | | 239,277 | 380,811 | 311,994 | 371,122 |
| Refined Finance | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | | | | | 1,000 | 1,000 | 1,000 | 1,000 |
| Release Finance | 10,742 | 2,336 | 3,137 | 3,287 | 2,005 | 1,334 | 2,005 | 2,005 | 20,000 | 20,000 | 20,000 | 20,000 | | | | | 43,888 | 2,123 | 39,625 | 12,182 |
| Reliance and Company | 2,000 | 4,827 | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 | 10,000 | 10,000 | 10,000 | 10,000 | | | | | 24,263 | 23,000 | 10,602 | 10,602 |
| Security Loan | 10,834 | 1,571 | 1,549 | 9,644 | 10,052 | 1,271 | 604 | 1,271 | 1,271 | 1,271 | 1,271 | 1,271 | | | | | 1,271 | 1,271 | 1,271 | 1,271 |
| Standard Finance | 10,363 | 10,447 | 29,882 | 16,619 | 9,016 | 10,000 | 12,335 | 13,800 | 30,000 | 30,000 | 30,000 | 30,000 | | | | | 61,623 | 62,494 | 71,125 | 67,781 |
| Standard Finance | 10,363 | 10,447 | 29,882 | 16,619 | 9,016 | 10,000 | 12,335 | 13,800 | 30,000 | 30,000 | 30,000 | 30,000 | | | | | 61,623 | 62,494 | 71,125 | 67,781 |
| Standard Finance | 10,363 | 10,447 | 29,882 | 16,619 | 9,016 | 10,000 | 12,335 | 13,800 | 30,000 | 30,000 | 30,000 | 30,000 | | | | | 61,623 | 62,494 | 71,125 | 67,781 |
| Standard Finance | 10,363 | 10,447 | 29,882 | 16,619 | 9,016 | 10,000 | 12,335 | 13,800 | 30,000 | 30,000 | 30,000 | 30,000 | | | | | 61,623 | 62,494 | 71,125 | 67,781 |
| | | | | | | | | | | | | | | | | | | | | |

APPENDIX "E"
LICENSEES UNDER THE SMALL LOANS ACT

TABLE 5

Paid Capital, Surplus Paid In, General Reserves and Balance of Profit and Loss Account compared with Borrowed Money.

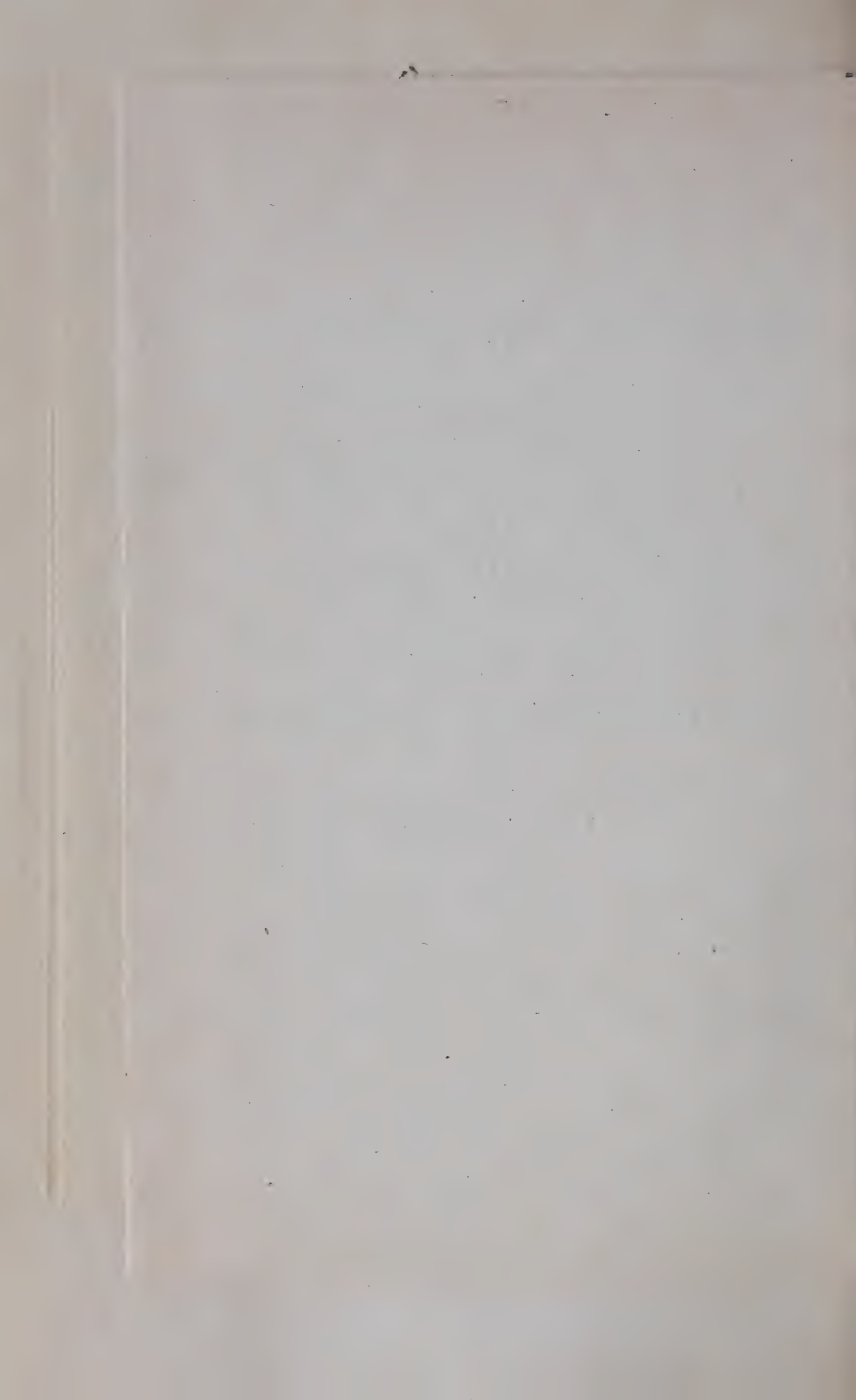
| | 1955 | | | | | | |
|--------------------------------------|--|----------------------------------|---------------------------------|------------------|--------------------|----------------------------|--|
| | Average Paid Capital, Surplus Paid In, General Reserves and Balance of P&L Account | Average Amount of Borrowed Money | | | | Interest on Borrowed Money | Average Annual Rate Paid on Borrowed Money |
| | | Banks | Parent Companies and Affiliates | Other Sources | Total | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | % |
| <i>Small Loans Companies</i> | | | | | | | |
| Canadian Acceptance..... | 475,017 | — | 48,088 | — | 48,088 | — | — |
| Community Finance..... | 1,438,142 | 31,962 | 3,190,372 | — | 3,222,334 | 176,459 | 5.48 |
| Household Finance..... | 8,534,429 | — | 43,406,905 | — | 43,406,905 | 2,024,017 | 4.46 |
| Personal Finance..... | 14,926,736 | 4,832,300 | 32,224,030 | — | 37,056,530 | 2,009,411 | 5.42 |
| Totals, Small Loans Companies | 25,395,135 | 4,864,462 | 80,869,395 | — | 85,733,857 | 4,209,983 | 4.91 |
| <i>Money-lenders</i> | | | | | | | |
| Commercial Credit Plan..... | 496,915 | — | 2,112,500 | — | 2,112,500 | 62,250 | 4.37 |
| Niagara Finance..... | 5,359,733 | 14,875,000 | 3,003,000 | — | 17,875,000 | 781,159 | 4.30 |
| Trans Canada Credit..... | 1,015,591 | — | 9,309,000 | — | 9,500,000 | 543,099 | 5.72 |
| Union Finance..... | 284,538 | 70,967 | 1,802,500 | — | 1,933,467 | 88,982 | 4.60 |
| All Others..... | 6,869,820 | 10,240,774 | 4,941,500 | 4,036,217 | 19,218,500 | 911,778 | 4.74 |
| Totals, Money-lenders | 13,765,907 | 25,186,741 | 21,616,369 | 4,036,217 | 50,639,267 | 2,420,998 | 4.78 |
| Grand Totals, All Licensees. | 1955 39,161,042 | 30,051,203 | 102,285,764 | 4,036,217 | 136,373,124 | 6,630,981 | 4.86 |
| | 1954 34,822,116 | 25,801,735 | 85,616,472 | 3,890,887 | 115,308,794 | 5,533,798 | 4.80 |
| | 1953 25,382,125 | 29,947,384 | 73,439,379 | 3,876,956 | 107,263,719 | 4,612,379 | 4.30 |
| | 1952 16,433,596 | 23,183,238 | 67,104,125 | 3,276,030 | 93,563,393 | 3,676,525 | 3.93 |

APPENDIX "T"

TABLE 6

Annual Rate of Income Earned on Average Balances Outstanding
(Each class of business separately)

| | Small Loans | | | Loans over \$500 | | | Conditional Sale Agreements, etc. | | |
|----------------------------------|-------------|-------------|-------------|------------------|-------------|-------------|-----------------------------------|-------------|-------------|
| | 1953 | 1954 | 1955 | 1953 | 1954 | 1955 | 1953 | 1954 | 1955 |
| | % | % | % | % | % | % | % | % | % |
| <i>Small Loans Companies</i> | | | | | | | | | |
| Canadian Acceptance..... | 19-1 | 24-4 | 23-6 | 16-8 | 17-5 | 17-8 | — | — | — |
| Community Finance..... | 22-7 | 22-5 | 22-3 | 20-9 | 23-5 | 23-5 | — | — | 7-3 |
| Household Finance..... | 23-2 | 23-2 | 22-9 | — | — | — | — | — | — |
| Personal Finance..... | 23-7 | 23-1 | 23-5 | 23-6 | 23-0 | 22-6 | 23-7 | 23-7 | 21-1 |
| All Small Loans Companies | 23-1 | 23-1 | 22-8 | 23-4 | 22-9 | 22-6 | 23-7 | 23-7 | 18-0 |
| <i>Money-lenders</i> | | | | | | | | | |
| Commercial Credit Plan..... | 23-5 | 22-7 | 23-1 | 21-4 | 19-0 | 20-7 | — | — | — |
| Niagara Finance..... | 23-1 | 23-1 | 23-5 | 20-0 | 22-2 | 21-9 | 19-9 | 21-1 | 18-9 |
| Trans Canada Credit..... | 22-7 | 22-1 | 23-0 | 23-1 | 22-0 | 24-0 | 15-9 | 15-9 | 20-5 |
| Union Finance..... | 19-7 | 20-2 | 21-5 | 18-4 | 20-7 | 21-8 | — | — | — |
| All Others..... | 23-1 | 23-0 | 21-4 | 19-5 | 21-0 | 20-0 | 15-5 | 13-9 | 12-6 |
| All Money-Lenders | 22-6 | 22-7 | 22-8 | 20-9 | 21-7 | 22-0 | 15-7 | 14-5 | 14-0 |
| All Licensees | 23-0 | 23-1 | 22-8 | 22-6 | 22-3 | 22-3 | 16-3 | 15-2 | 14-3 |

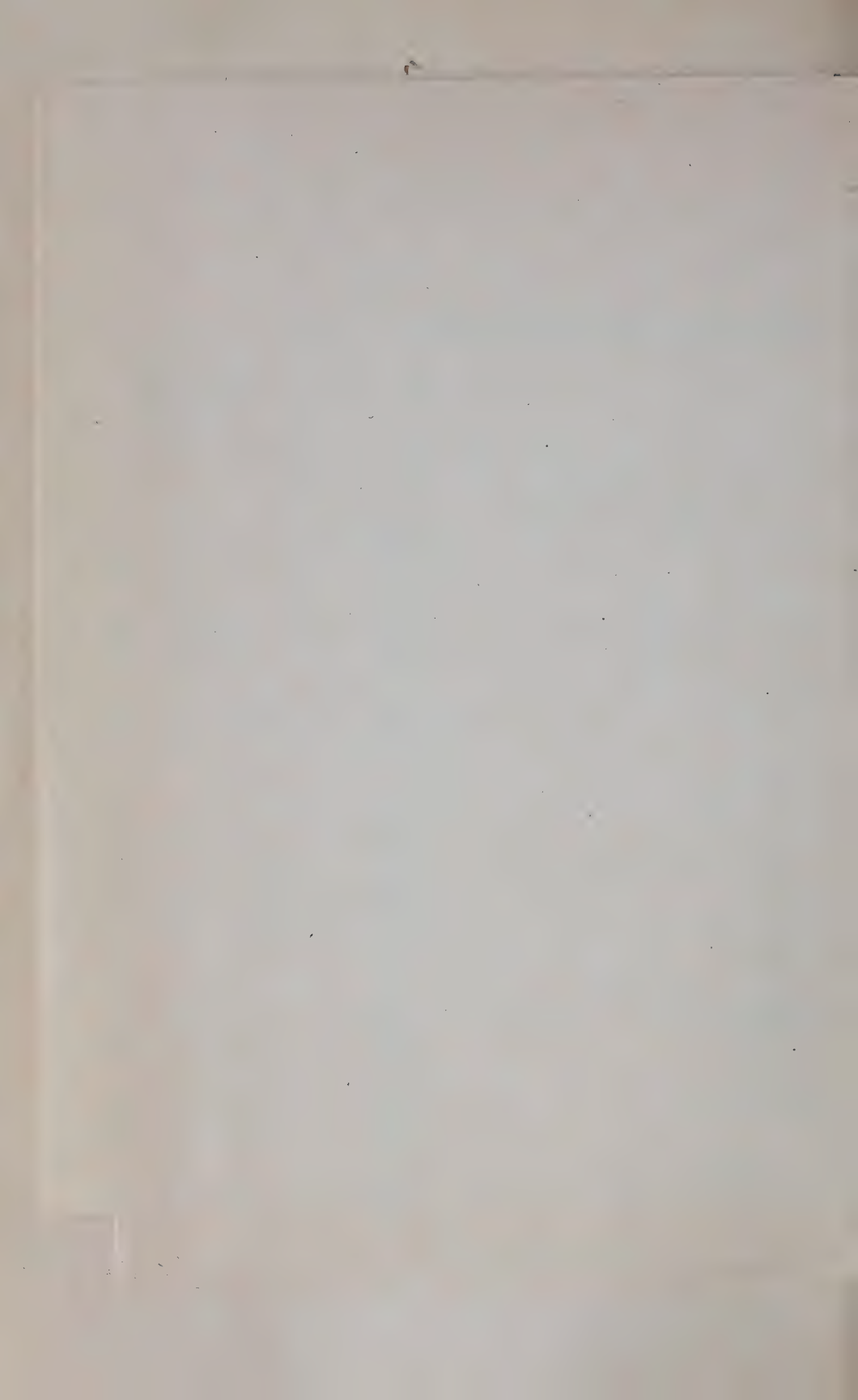


APPENDIX "G"
LICENSEES UNDER THE SMALL LOANS ACT
TABLE 7

Ratios (%) of Losses and Expenses to Income 1952 to 1955

| | Net Amount Written Off plus Net Transfer to Reserve for B.I. Debts | | | | | | | | | | | | Advertising | | | | | | | | | | | | Salaries and Directors' Fees | | | | | | | | | | | | Other Expenses Except Income Tax, and Interest on Borrowed Money | | | | | | | | | | | | Total Losses and Expenses Except Income Tax and Interest on Borrowed Money | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---------------------------|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|--|------|------|------|----------------|------|------|------|----------------|------|------|------|------|------|------|------|------|---|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|
| | Small Loans | | | | Other Business | | | | Total Business | | | | Small Loans | | | | Other Business | | | | Total Business | | | | Small Loans | | | | Other Business | | | | Total Business | | | | Small Loans | | | | Other Business | | | | Total Business | | | | Small Loans | | | | Other Business | | | | Total Business | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 1952 | 1953 | 1954 | 1955 | 1952 | 1953 | 1954 | 1955 | 1952 | 1953 | 1954 | 1955 | 1952 | 1953 | 1954 | 1955 | 1952 | 1953 | 1954 | 1955 | 1952 | 1953 | 1954 | 1955 | 1952 | 1953 | 1954 | 1955 | 1952 | 1953 | 1954 | 1955 | 1952 | 1953 | 1954 | 1955 | 1952 | 1953 | 1954 | 1955 | 1952 | 1953 | 1954 | 1955 | 1952 | 1953 | 1954 | 1955 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Small Loans Companies | C ₁ | C ₂ | C ₃ | C ₄ | C ₁ | C ₂ | C ₃ | C ₄ | C ₁ | C ₂ | C ₃ | C ₄ | C ₁ | C ₂ | C ₃ | C ₄ | C ₁ | C ₂ | C ₃ | C ₄ | C ₁ | C ₂ | C ₃ | C ₄ | C ₁ | C ₂ | C ₃ | C ₄ | C ₁ | C ₂ | C ₃ | C ₄ | C ₁ | C ₂ | C ₃ | C ₄ | C ₁ | C ₂ | C ₃ | C ₄ | C ₁ | C ₂ | C ₃ | C ₄ | C ₁ | C ₂ | C ₃ | C ₄ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Canadian Acceptance | 3.7 | -1.1 | 3.3 | 3.2 | 2.4 | 3 | 2.4 | -4.7 | 2.7 | -6 | 2.6 | 2.7 | | | | | | | | | | | | | 23 | 2.22 | 4.18 | 1.5 | 8.10 | 8.10 | 8.10 | 1.10 | 4.13 | 6.13 | 3.12 | 1.12 | 5.16 | 8.17 | 1.12 | 0.15 | 7 | 7.8 | 8.2 | 7.6 | 10.5 | 9.8 | 10.2 | 8.7 | 11.8 | 43 | 7.88 | 4.33 | 7.37 | 7.21 | 0 | 18.5 | 20 | 1.16 | 2.26 | 1.22 | 9.23 | 4.21 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Canadian Finance | 3.6 | 6.2 | 6.1 | 3.1 | 3 | | 2.5 | 20.0 | 3.1 | 5.2 | 5.2 | 4.0 | 2.9 | 1.2 | 3.9 | 3.6 | -8 | 1.2 | -9 | 3.6 | 2.8 | 3.7 | 3.2 | 3.6 | 38 | 2.90 | 1.44 | 7.15 | 0 | 8.3 | 8 | 5.10 | 3.20 | 5.36 | 0.35 | 1.36 | 4.38 | 7.24 | 4.21 | 3.25 | 5.26 | 9 | 5.1 | 5.3 | 5.9 | 14.4 | 23 | 0.21 | 3.20 | 8.22 | 7.69 | 1.75 | 1.80 | 2.75 | 1.14 | 8 | 15.0 | 19 | 6.58 | 5.65 | 2.65 | 6.65 | 6.89 | 6 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Household Finance | 0 | 1.3 | 1.7 | 2.0 | | | | | -6 | 1.3 | 1.7 | 2.0 | 4.0 | 4.1 | 3.9 | 3.6 | | | | | 4.0 | 4.1 | 3.9 | 3.6 | 1.0 | 7.23 | 0.20 | 7.22 | 4 | | | | | 21 | 7.23 | 0.20 | 7.22 | 0 | 12 | 9.13 | 8.13 | 0.14 | 8 | | | | | 12 | 9.13 | 8.13 | 0.14 | 8 | 3.39 | 2.42 | 2.39 | 3.13 | 0 | | | | | 39 | 2.42 | 2.39 | 3.13 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Personal Finance | 8.1 | 5.3 | 5.0 | 1.7 | 4.0 | 3.9 | 3.5 | 5.7 | 3.6 | 5.7 | 3.1 | 4.3 | 12.1 | 4.7 | 5.0 | 4.7 | 3.2 | 4.8 | 5.0 | 1.8 | 7.2 | 4.7 | 5.0 | 4.7 | 35 | 1.28 | 2.20 | 6.30 | 4.11 | 2.18 | 1.18 | 6.18 | 1.21 | 7.22 | 1.22 | 10.22 | 7.29 | 9.25 | 2.21 | 9.22 | 3.10 | 5 | 17.0 | 14.4 | 14 | 0 | 19 | 2.20 | 8.17 | 4.16 | 9.80 | 5.63 | 4.61 | 5.59 | 3.31 | 9.17 | 0.11 | 3.42 | 9.53 | 7.53 | 6.19 | 1.18 | 4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| All Small Loans Companies | 1.1 | 2.2 | 2.7 | 1.8 | 3.9 | 5.7 | 3.5 | 6.3 | 1.5 | 2.9 | 2.9 | 3.2 | 5.1 | 4.2 | 4.1 | 3.8 | 3.1 | 4.6 | 4.8 | 4.7 | 4.8 | 4.3 | 4.4 | 1.24 | 3.24 | 7.23 | 6.25 | 5.14 | 0.18 | 0.18 | 2.18 | 5.22 | 8.23 | 2.22 | 2.23 | 3.15 | 7.16 | 2.15 | 4.17 | 1.10 | 3.17 | 3.14 | 0.14 | 0.14 | 9.16 | 5.15 | 1.16 | 1.46 | 2.47 | 3.45 | 3.48 | 2.31 | 3.45 | 6.40 | 5.43 | 5.44 | 0.16 | 9.44 | 5.46 | 7 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Money-lenders | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

*Included with "All Others".



APPENDIX "H"
LICENSEES UNDER THE SMALL LOANS ACT

TABLE 8
Ratios (%) of Income, Losses, Expenses and Gross Earnings to Average Assets.

| | Year | Average Assets (Less Reserves for Bad Debts and Unearned Charges) | | Income | | Net Amount Written Off plus Net Transfer to Reserve for Bad Debts | | Advertising | | Salaries and Directors' Fees | | Other Expenses Except Income Tax and Interest on Borrowed Money | | Total Losses and Expenses Except Income Tax and Interest on Borrowed Money | | Gross Earnings Before Income Tax and Interest on Borrowed Money | |
|------------------------------------|-----------|--|-------|------------|-------|---|-------|-------------|-------|---------------------------------|-------|--|-------|---|-------|--|-------|
| | | Amount | Ratio | Amount | Ratio | Amount | Ratio | Amount | Ratio | Amount | Ratio | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | | \$ | % | \$ | % | \$ | % | \$ | % | \$ | % | \$ | % | \$ | % | \$ | % |
| Small Loans Companies | | | | | | | | | | | | | | | | | |
| Canadian Acceptances..... | 1932..... | 705,273 | 100-0 | 100,295 | 14-2 | 2,718 | -4 | — | — | 13,591 | 1-9 | 9,844 | 1-4 | 26,155 | 3-7 | 74,142 | 10-5 |
| | 1933..... | 715,181 | 100-0 | 96,174 | 13-5 | -387 | -1 | — | — | 12,790 | 1-8 | 9,767 | 1-4 | 21,970 | 3-1 | 74,201 | 10-4 |
| | 1934..... | 631,771 | 100-0 | 79,200 | 12-5 | 2,083 | -3 | — | — | 9,650 | 1-5 | 6,884 | 1-1 | 18,387 | 2-9 | 60,773 | 8-2 |
| | 1935..... | 541,729 | 100-0 | 66,875 | 10-5 | -1,541 | -3 | — | — | 7,138 | 1-3 | 6,718 | 1-3 | 12,306 | 2-3 | 44,570 | 8-2 |
| Cutaneous Finance..... | 1932..... | 4,018,164 | 100-0 | 716,247 | 21-7 | 24,011 | 8 | 19,056 | 7 | 237,957 | 8-5 | 161,969 | 5-1 | 466,914 | 15-4 | 229,344 | 8-3 |
| | 1933..... | 1,396,446 | 100-0 | 791,143 | 21-3 | 41,430 | 1-2 | 79,117 | 7 | 279,731 | 8-2 | 168,257 | 5-0 | 518,884 | 15-3 | 272,214 | 8-0 |
| | 1934..... | 4,785,496 | 100-0 | 867,911 | 22-9 | 43,400 | 1-2 | 27,032 | 7 | 316,120 | 8-3 | 189,582 | 4-8 | 269,343 | 15-9 | 288,548 | 7-9 |
| | 1935..... | 4,704,545 | 100-0 | 1,031,422 | 21-9 | 47,100 | 1-0 | 37,176 | -8 | 399,003 | 8-5 | 233,691 | 4-9 | 716,070 | 15-2 | 314,452 | 6-7 |
| Homehold Finance..... | 1932..... | 34,026,356 | 100-0 | 12,793,224 | 21-4 | 30,670 | 2 | 501,832 | 2 | 2,691,712 | 5-1 | 1,045,644 | 1-9 | 4,879,263 | 9-2 | 7,515,861 | 11-2 |
| | 1933..... | 55,621,200 | 100-0 | 12,617,929 | 22-5 | 153,138 | 4 | 520,737 | 9 | 2,906,591 | 5-1 | 1,741,736 | 3-1 | 5,322,232 | 9-6 | 7,205,467 | 10-1 |
| | 1934..... | 55,801,723 | 100-0 | 12,759,707 | 22-6 | 224,248 | -4 | 496,373 | -9 | 2,643,428 | 4-7 | 1,657,186 | 3-0 | 5,023,242 | 9-0 | 7,486,475 | 11-4 |
| | 1935..... | 55,365,161 | 100-0 | 12,447,495 | 22-5 | 254,436 | -5 | 447,419 | -8 | 2,809,418 | 5-1 | 1,859,811 | 3-3 | 5,362,084 | 9-7 | 7,986,411 | 12-8 |
| Personal Finance..... | 1932..... | 21,787,016 | 100-0 | 1,457,591 | 20-1 | 158,800 | 7 | 321,330 | 1-5 | 1,051,894 | 1-8 | 853,916 | 4-0 | 2,988,966 | 11-0 | 2,918,843 | 9-1 |
| | 1933..... | 31,978,611 | 100-0 | 1,677,423 | 21-3 | 305,848 | 1-2 | 430,168 | 1-9 | 1,369,369 | 1-7 | 1,150,802 | 4-6 | 3,747,212 | 11-7 | 4,240,297 | 10-1 |
| | 1934..... | 42,489,346 | 100-0 | 1,690,138 | 22-3 | 391,074 | -9 | 473,911 | 1-1 | 2,177,013 | 5-1 | 1,649,500 | 3-9 | 4,692,398 | 11-0 | 4,797,738 | 11-3 |
| | 1935..... | 51,518,761 | 100-0 | 11,803,371 | 22-0 | 569,811 | 1-0 | 560,719 | 1-0 | 2,629,196 | 5-6 | 1,993,993 | 3-7 | 5,743,719 | 10-7 | 6,061,632 | 11-5 |
| Totals, Small Loans Companies..... | 1932..... | 78,537,739 | 100-0 | 17,649,567 | 22-5 | 265,625 | 3 | 843,118 | 1-1 | 4,029,150 | 5-1 | 2,832,402 | 3-4 | 7,761,295 | 9-9 | 9,888,272 | 12-6 |
| | 1933..... | 91,111,338 | 100-0 | 20,482,675 | 22-4 | 589,853 | -6 | 880,362 | 1-0 | 4,759,411 | 5-2 | 3,370,672 | 3-7 | 9,606,308 | 10-5 | 10,882,377 | 11-9 |
| | 1934..... | 102,708,336 | 100-0 | 23,197,114 | 22-6 | 652,471 | -6 | 999,870 | 1-0 | 5,147,081 | 5-0 | 3,494,152 | 3-4 | 10,393,880 | 10-9 | 12,593,584 | 12-6 |
| | 1935..... | 114,130,399 | 100-0 | 25,541,143 | 22-2 | 899,896 | 7 | 1,045,314 | 9 | 5,894,745 | 5-1 | 4,285,213 | 3-6 | 11,835,978 | 10-4 | 13,546,085 | 11-8 |
| Moneylenders | | | | | | | | | | | | | | | | | |
| Commercial Credit Plan..... | 1932..... | 1,748,421 | 100-0 | 831,905 | 22-0 | 12,397 | 7 | 21,946 | 1-1 | 105,797 | 6-1 | 27,752 | 1-6 | 169,872 | 9-8 | 210,014 | 12-2 |
| | 1933..... | 1,802,342 | 100-0 | 805,195 | 21-8 | 7,683 | 7 | 25,219 | 1-1 | 116,075 | 6-2 | 26,331 | 1-6 | 174,925 | 9-1 | 210,270 | 12-1 |
| | 1934..... | 1,810,102 | 100-0 | 801,100 | 20-7 | 18,100 | 7 | 22,903 | 1-1 | 131,678 | 7-1 | 21,875 | 1-1 | 180,211 | 10-0 | 240,211 | 12-7 |
| | 1935..... | 2,205,536 | 100-0 | 559,590 | 21-6 | 38,781 | 1-5 | 30,659 | 1-2 | 169,755 | 6-2 | 47,104 | 1-8 | 276,699 | 10-7 | 281,294 | 10-9 |
| Nugget Finance..... | 1932..... | 10,614,479 | 100-0 | 2,254,719 | 24-0 | 228,110 | 2-1 | 129,159 | 1-1 | 685,341 | 6-7 | 508,626 | 1-8 | 1,512,736 | 11-5 | 1,012,181 | 9-5 |
| | 1933..... | 15,315,295 | 100-0 | 3,321,971 | 21-7 | 184,460 | 1-2 | 141,435 | 1-1 | 815,882 | 5-2 | 706,825 | 1-6 | 1,820,111 | 12-2 | 1,179,357 | 9-5 |
| | 1934..... | 19,001,357 | 100-0 | 4,292,411 | 22-6 | 231,205 | -3 | 174,232 | -0 | 1,008,665 | 5-3 | 862,214 | 4-6 | 2,206,529 | 12-1 | 1,995,892 | 10-3 |
| | 1935..... | 23,686,386 | 100-0 | 5,290,381 | 22-3 | 331,732 | 1-4 | 215,740 | -9 | 1,234,808 | 5-2 | 1,134,362 | 4-8 | 2,916,642 | 12-3 | 2,514,779 | 10-0 |
| Trans Canada Credit..... | 1932..... | 5,827,001 | 100-0 | 1,373,212 | 23-6 | 47,189 | -8 | 53,368 | -9 | 274,045 | 4-7 | 269,443 | 4-5 | 615,935 | 10-9 | 718,167 | 12-7 |
| | 1933..... | 7,817,536 | 100-0 | 1,680,298 | 21-2 | 46,216 | -9 | 69,919 | -9 | 334,314 | 4-1 | 356,642 | 4-6 | 797,491 | 10-2 | 862,907 | 11-0 |
| | 1934..... | 8,383,707 | 100-0 | 1,744,807 | 20-8 | 54,811 | -4 | 98,367 | -1 | 366,532 | 4-3 | 399,897 | 3-8 | 827,847 | 9-6 | 917,429 | 10-7 |
| | 1935..... | 10,809,398 | 100-0 | 2,504,616 | 23-1 | 95,641 | -9 | 162,651 | 1-5 | 418,557 | 3-9 | 553,465 | 5-0 | 1,230,314 | 11-2 | 1,274,302 | 11-8 |
| Union Finance..... | 1932..... | " | " | " | " | " | " | " | " | " | " | " | " | " | " | " | |
| | 1933..... | " | " | " | " | " | " | " | " | " | " | " | " | " | " | " | |
| | 1934..... | 1,198,729 | 100-0 | 247,219 | 20-6 | 31,276 | 2-6 | 12,082 | 1-1 | 63,073 | 5-3 | 58,988 | 4-9 | 166,315 | 13-9 | 89,994 | 6-7 |
| | 1935..... | 2,234,223 | 100-0 | 480,830 | 21-9 | 32,784 | 1-5 | 27,889 | 1-2 | 138,610 | 6-2 | 104,257 | 4-7 | 303,540 | 13-6 | 186,290 | 8-3 |
| All Others..... | 1932..... | 16,800,216 | 100-0 | 3,127,178 | 18-5 | 240,542 | 1-5 | 100,610 | -6 | 987,053 | 5-9 | 536,520 | 3-1 | 1,870,705 | 11-1 | 1,268,473 | 7-1 |
| | 1933..... | 21,174,550 | 100-0 | 3,618,871 | 17-1 | 207,232 | 1-0 | 116,776 | -3 | 1,081,252 | 5-1 | 591,225 | 3-0 | 2,696,426 | 12-7 | 1,882,018 | 7-5 |
| | 1934..... | 21,141,391 | 100-0 | 4,723,813 | 15-1 | 247,615 | -4 | 116,408 | -1 | 1,070,123 | 5-1 | 670,829 | 2-9 | 3,455,829 | 16-7 | 2,645,829 | 7-7 |
| | 1935..... | 26,401,262 | 100-0 | 4,411,391 | 16-7 | 309,720 | 1-2 | 239,207 | -1 | 1,191,131 | 5-6 | 1,031,191 | 3-8 | 3,071,140 | 11-5 | 1,750,211 | 5-2 |
| Totals, Moneylenders..... | 1932..... | 38,649,914 | 100-0 | 7,438,974 | 21-2 | 534,248 | 1-5 | 298,343 | 9 | 2,852,216 | 5-8 | 1,333,341 | 3-8 | 4,218,138 | 12-0 | 3,228,836 | 9-2 |
| | 1933..... | 46,174,886 | 100-0 | 9,844,340 | 19-6 | 444,160 | 1-0 | 356,400 | 7 | 2,357,523 | 5-1 | 1,751,829 | 3-8 | 4,999,758 | 10-6 | 4,131,582 | 9-0 |
| | 1934..... | 52,154,975 | 100-0 | 10,486,528 | 20-0 | 583,166 | 1-1 | 432,318 | -8 | 2,659,789 | 5-1 | 1,899,699 | 3-7 | 5,754,270 | 10-7 | 4,834,258 | 9-3 |
| | 1935..... | 65,956,778 | 100-0 | 13,289,238 | 20-1 | 808,658 | 1-2 | 675,546 | 1-9 | 3,446,864 | 5-2 | 2,879,307 | 4-4 | 7,301,375 | 11-8 | 5,487,833 | 8-3 |
| Grand Totals, All Licensees..... | 1932..... | 113,587,653 | 100-0 | 25,085,541 | 22-0 | 799,863 | 7 | 1,141,461 | 1-0 | 6,872,366 | 5-3 | 3,968,748 | 3-5 | 11,979,433 | 10-5 | 13,169,108 | 11-5 |
| | 1933..... | 137,286,024 | 100-0 | 29,527,015 | 21-5 | 1,034,159 | 8 | 1,285,762 | 9 | 7,116,934 | 5-2 | 5,122,291 | 3-7 | 14,016,056 | 10-9 | 15,016,999 | 10-9 |
| | 1934..... | 154,862,411 | 100-0 | 33,663,642 | 21-7 | 1,245,637 | 8 | 1,432,191 | 7 | 7,806,861 | 5-1 | 5,877,858 | 3-5 | 15,877,858 | 10-7 | 17,227,792 | 11-4 |
| | 1935..... | 180,087,177 | 100-0 | 38,639,371 | 21-4 | 1,618,464 | -9 | 1,720,860 | 1-9 | 9,341,609 | 5-2 | 6,955,520 | 3-8 | 19,636,453 | 10-9 | 18,993,918 | 10-5 |

*Included with "All Others".

APPENDIX "I"
LICENSEES UNDER THE SMALL LOANS ACT

TABLE 9
Rates of Earnings

| | 1952 | | | 1953 | | | 1954 | | |
|--------------------------------------|--|--|-------------------------------------|--|--|-------------------------------------|--|--|-------------------------------------|
| | Average Assets (Less reserves for bad debts and unearned charges) | Gross Earnings (Before income tax and interest; after write-offs and transfers to reserves for bad debts) | Gross Rate Earned on Average Assets | Average Assets (Less reserves for bad debts and unearned charges) | Gross Earnings (Before income tax and interest; after write-offs and transfers to reserves for bad debts) | Gross Rate Earned on Average Assets | Average Assets (Less reserves for bad debts and unearned charges) | Gross Earnings (Before income tax and interest; after write-offs and transfers to reserves for bad debts) | Gross Rate Earned on Average Assets |
| <i>Small Loans Companies</i> | \$ | \$ | % | \$ | \$ | % | \$ | \$ | % |
| Canadian Acceptance..... | 705,373 | 74,142 | 10.5 | 715,151 | 74,204 | 10.4 | 631,771 | 60,773 | 9.6 |
| Community Finance..... | 3,018,104 | 219,334 | 8.3 | 3,306,346 | 272,209 | 8.0 | 3,785,498 | 218,548 | 7.9 |
| Household Finance..... | 53,626,336 | 7,515,961 | 14.2 | 55,021,200 | 7,205,607 | 13.3 | 55,801,723 | 7,730,475 | 13.9 |
| Personal Finance..... | 21,787,946 | 2,049,835 | 9.4 | 31,978,611 | 3,240,217 | 10.1 | 42,489,846 | 4,797,738 | 11.3 |
| Totals, Small Loans Companies | 78,537,739 | 9,888,272 | 12.6 | 111,111,338 | 10,682,377 | 11.9 | 102,768,336 | 12,893,534 | 12.6 |
| <i>Money-lenders</i> | | | | | | | | | |
| Commercial Credit Plan..... | 1,748,624 | 214,013 | 12.2 | 1,812,542 | 230,270 | 12.4 | 1,929,092 | 186,293 | 9.7 |
| Niagara Finance..... | 10,614,070 | 1,012,183 | 9.5 | 15,315,238 | 1,459,337 | 9.5 | 19,001,357 | 1,956,882 | 10.5 |
| Trans Canada Credit..... | 5,827,004 | 738,167 | 12.7 | 7,817,536 | 862,907 | 11.0 | 8,583,367 | 917,320 | 10.7 |
| Union Finance..... | " | " | " | " | " | " | 1,198,728 | 80,904 | 6.7 |
| All Others..... | 16,860,218 | 1,256,473 | 7.4 | 21,179,370 | 1,562,048 | 7.5 | 21,441,330 | 1,553,859 | 7.7 |
| Totals, Money-Lenders | 35,949,914 | 3,220,836 | 9.2 | 46,174,686 | 4,134,882 | 9.0 | 51,154,078 | 4,834,288 | 9.3 |
| Grand Totals, all Licensees | 113,987,653 | 13,109,108 | 11.5 | 137,286,024 | 15,056,959 | 10.9 | 154,862,411 | 17,727,792 | 11.6 |

* Included with "All Others".

| | 1955 | | | | | | | | | | | | | | |
|------------------------------------|--|------------------|------------------|------------------------------|--|------|-------------------------------------|-----|---|-----------|-----------------------------------|----|--|--|--|
| | Average Assets (Less reserves for bad debts and unearned charges) | Income Earned on | | | Gross Earnings (Before income tax and interest; after write-offs and transfers to reserves for bad debts) | | Gross Rate Earned on Average Assets | | Net Earnings (Before interest; after income tax, write-offs and transfers to reserves for bad debts) | | Net Rate Earned on Average Assets | | Average Paid Capital, Surplus and Balance of P. & L. Account | Net Profit (After interest, income tax, write-offs and transfers to reserves for bad debts) | Ratio of Net Profit to Paid Capital, Surplus, etc. |
| | | Small Loans | Loans over \$500 | Conditional Sale Agts., etc. | \$ | % | \$ | % | \$ | % | \$ | % | \$ | % | |
| | | | | | | | | | | | | | | | |
| Small Loans Companies | \$ | \$ | \$ | \$ | % | \$ | % | \$ | % | \$ | % | \$ | % | | |
| Canadian Acceptance..... | 541,729 | 14,215 | 42,680 | — | 44,570 | 8.2 | 23,444 | 4.3 | 475,617 | 23,444 | 4.9 | | | | |
| Community Finance..... | 4,704,545 | 680,434 | 334,305 | 16,682 | 314,452 | 6.7 | 265,427 | 5.6 | 1,438,342 | 88,562 | 6.2 | | | | |
| Household Finance..... | 55,365,364 | 12,446,336 | — | — | 7,085,411 | 12.8 | 4,678,775 | 8.5 | 8,554,420 | 2,654,738 | 31.0 | | | | |
| Personal Finance..... | 33,518,761 | 4,134,319 | 7,508,707 | 161,927 | 6,061,652 | 11.3 | 4,626,322 | 7.5 | 14,926,750 | 2,016,541 | 13.5 | | | | |
| Totals, Small Loans Companies..... | 114,130,399 | 17,275,364 | 7,885,762 | 178,609 | 13,506,085 | 11.8 | 8,993,938 | 7.9 | 25,398,135 | 4,783,995 | 18.8 | | | | |
| Money-lenders | | | | | | | | | | | | | | | |
| Commercial Credit Plan..... | 2,805,636 | 284,885 | 275,105 | — | 283,291 | 10.9 | 193,391 | 7.5 | 435,315 | 101,141 | 23.2 | | | | |
| Niagara Finance..... | 23,686,386 | 1,106,930 | 4,112,324 | 73,119 | 2,373,739 | 10.0 | 1,611,888 | 6.8 | 3,359,733 | 827,668 | 15.4 | | | | |
| Trans Canada Credit..... | 10,820,368 | 345,417 | 1,757,593 | 400,369 | 1,274,302 | 11.8 | 930,801 | 8.6 | 1,015,501 | 387,103 | 38.1 | | | | |
| Union Finance..... | 2,234,223 | 223,500 | 250,330 | — | 186,260 | 8.3 | 149,490 | 6.3 | 284,338 | 51,508 | 18.1 | | | | |
| All Others..... | 26,061,365 | 983,379 | 2,120,392 | 1,269,723 | 1,370,211 | 5.2 | 1,102,861 | 4.1 | 6,669,820 | 101,083 | 2.9 | | | | |
| Totals, Money-Lenders..... | 65,556,728 | 2,949,820 | 8,554,244 | 1,734,211 | 6,887,833 | 8.3 | 3,979,411 | 6.0 | 13,765,967 | 1,538,953 | 11.3 | | | | |
| Grand Totals, all Licensees..... | 189,687,127 | 20,225,124 | 16,442,006 | 1,912,820 | 18,993,918 | 10.5 | 12,973,309 | 7.2 | 39,164,102 | 6,322,948 | 16.2 | | | | |

NOTE RE 1955: The rates of earnings of "All Other" money-lenders were greatly depressed during 1955 by the negative earnings of several new lenders licensed during 1953 and 1954 (See Table 4). If these new lenders had operated at a loss were excluded, the "Gross Rate Earned on Average Assets" of "All Others" in 1955 would have increased from 5.2% to 7.5%; the "Net Rate Earned on Average Assets" would have increased from 4.1% to 6.4% and the "Ratio of Net Profits to Paid Capital, Surplus, etc." would have increased from 2.9% to 11.7%.

The CHAIRMAN: That last sentence is rather ambiguous in its phrasing.

Mr. FLEMING: There is an ellipsis there—something omitted in the latter part of the sentence.

Mr. FULTON: I think that Mr. MacGregor cleared it up.

The WITNESS: I would be glad to clarify that sentence if it would be helpful.

The CHAIRMAN: For your information, I have just received a report on the 1946 sittings. They had four meetings.

Mr. FLEMING: Were any persons heard, apart from Mr. Finlayson?

The CHAIRMAN: Yes.

The WITNESS: Concerning earnings, it cannot be overlooked that in many cases, especially amongst the smaller lenders or those closely owned and operated by a few individuals, profits are effectively withdrawn as salaries or other rather personal expenses, thus tending to depress their apparent earnings. Also, expenses are naturally increased and earnings are correspondingly reduced in times of expansion when new or additional lending offices are being opened. This has been an important aspect in recent years and especially so in 1955. Some comment also seems desirable in explanation of the apparent discontinuity in the data for small loans in 1948, more particularly as between small loans companies and money-lenders; also in explanation of the apparent absence of any loans made above \$500 by the largest small loans company, Household Finance Corporation of Canada.

By Mr. Monteith:

Q. May I refer to the last paragraph at the bottom of page 16, Mr. MacGregor, where you mention that earnings are taken out in salaries and expenses. Are expenses not naturally somewhat higher when new offices are opening and that sort of thing? Would that not just be a general situation?—A. That is true.

Q. In any business?—A. That is quite right.

In 1946, the largest operator in the money-lenders group was the Campbell Finance Corporation, a provincially-incorporated company that was owned by a large Canadian acceptance company. In that year, Campbell Finance was sold to a large U.S. finance company which was not then operating in Canada. About one year later, in 1947, the latter U.S. company in turn sold Campbell Finance to the Household Finance Corporation of the U.S.A., which already owned the Household Finance Corporation of Canada. In the same year, 1947, the name of Campbell Finance was changed to Household Finance Corporation Limited. In 1948, the small loans business of Household Finance Corporation Limited, licensed as a money-lender, was transferred to Household Finance Corporation of Canada, licensed as a small loans company; and at the same time, the loans over \$500 in Household Finance Corporation of Canada were transferred to Household Finance Corporation Limited. The result at the end of 1948 was that a large volume of small loans in the money-lenders group was transferred to the small loans companies group and the loans over \$500 in both companies disappeared from the data completely. The small loans company, Household Finance Corporation of Canada, thereafter confined its business to loans of \$500 or less and the sister company, Household Finance Corporation Limited, confined its business to loans over \$500 so that it no longer required a licence under the act. The latter unlicensed company is the largest operator at the present time in the field of loans over \$500, its volume of such loans being almost exactly equal

to the total loans over \$500 made by all licensed lenders combined. Incidentally, the large Canadian acceptance company that sold Campbell Finance in 1946 almost immediately purchased what was then a very small but is now a very large licensed money-lender; and the large U.S. finance company that purchased Campbell Finance but sold it so soon, re-entered the Canadian field in 1955 through a new provincially-incorporated company bearing a name similar to its own.

By Mr. Low:

Q. Would the witness please name that company?—A. The large Canadian acceptance company that owned and sold Campbell Finance was the Industrial Acceptance Corporation. The United States company, not then doing business in Canada, that bought Campbell Finance was the Seaboard Finance Company which obtained a licence and is operating in Canada now under the name Seaboard Finance Company of Canada Limited.

By Mr. Hollingworth:

Q. You said that the Household Finance Corporation confined its business to loans over \$500, so that it no longer required a licence under the act. I thought that it would still require a licence under the Money-Lenders Act?—A. No. There was never any licensing provided for under the Money-Lenders Act, and that act applied only to loans under \$500.

Q. Why do you have all the statistics in your annual report of many companies that lend money over \$500? Is it only for the companies lending money under \$500 that you have a report?—A. Only those operating in the field of \$500 or less.

Q. You have no report for those operating in loans over \$500?—A. We get no returns from the largest firm, namely, Household Finance Corporation or any other lenders operating exclusively in the field above \$500.

Q. Then how can you tell how much money is loaned over \$500?—A. We only get it incidentally. Household Finance Corporation has very courteously furnished us with copies of their recent annual financial statements.

Q. Thank you.—A. Turning now to table 1, which covers only small loans, i.e., loans of \$500 or less, the increase in the number of licensees from 62 at the end of 1953 to 70 at the end of 1955 should be noted. The number at the present time is 73 and there are about a dozen applications on hand or pending, including some backed by U.S. operators as well as substantial British interests.

Q. Have many applications come in since the other bill was introduced?—A. A great number. Hardly a week goes by that we do not receive some inquiry about the possibility of obtaining a licence, but when I mention a dozen, I have in mind enquiries or applications that we feel are *bona fide* cases which the applicants intend to pursue.

Paradoxical as it may seem, interest in obtaining a licence seems to have increased rather than diminished since the introduction of the present bill. But the increase in the number of licensees reflects only a fraction of the expansion in lending facilities: the number of branch offices is increasing at a tremendous rate. The number at the end of 1954 was 540, apart from the main office in each case, and during 1955 the number increased to 702, accounted for as follows:

| Company | No. of Branches Dec. 31 | | Increase during 1955 |
|------------------------------|----------------------------|------|-------------------------|
| | 1954 | 1955 | |
| Canadian Acceptance | 35 | 43 | 8 |
| Community Finance | 23 | 25 | 2 |
| Household Finance | 169 | 209 | 40 |
| Personal Finance | 133 | 171 | 38 |
| Associates Budget Plan | — | 4 | 4 |
| Atlas Thrift | 1 | 1 | — |
| Bellvue Finance | 5 | 9 | 4 |
| Canadian Personal Loan | 1 | 1 | — |
| Citizens Finance | 1 | 12 | 11 |
| Commercial Credit Plan | 17 | 19 | 2 |
| Consolidated Finance | 4 | 4 | — |
| Crescent Finance | 9 | 9 | — |
| Danforth Finance | 1 | 1 | — |
| Equitable Finance | — | 2 | 2 |
| Fairway Finance | 2 | 2 | — |
| Independent Finance | — | 1 | 1 |
| Lucerne Finance | — | 2 | 2 |
| Merit Finance | 1 | 1 | — |
| National Plan | 1 | 1 | — |
| Niagara Finance | 87 | 106 | 19 |
| P. F. Credit | 1 | 22 | 21 |
| Public Finance | 1 | 1 | — |
| Service Finance | 1 | 1 | — |
| Superior Finance | — | 5 | 5 |
| Trans-Canada Credit | 40 | 42 | 2 |
| Union Finance | 7 | 8 | 1 |
| Totals | 540 | 702 | 162 |

The table shows where these increases have occurred. In the case of the Canadian Acceptance, an increase of 8; Community Finance, 2; Household Finance, 40; Personal Finance, 38; and so on. I might comment on the increase with reference to Citizens Finance since it appears so large relatively, namely from 1 to 12. For years there was a licensee, Blake-Pierce Limited, with its head office in Windsor. Certain United States lending interests desired to extend their activities to Canada and they purchased Blake-Pierce Limited. They then changed its name to Citizens Finance, so that the increase of 11 is explained by reason of the acquisition of Blake-Pierce Limited by these United States interests and a much more aggressive policy of expansion.

By Mr. Michener:

Q. Do your tables differentiate between the companies on the basis of whether they are Canadian or foreign-owned?—A. No, sir; but we have the information.

Q. I notice that you make that distinction from time to time, and I wondered what was the difference between a Canadian-owned small loans company and an American or foreign-owned one?—A. Simply where financial control of the company lies.

Q. Have you any information on that?—A. We have a list of shareholders of every licensee.

Q. So you can tell the residence of the shareholders?—A. Yes.

Q. Can you tell me how the companies now doing business under legislation or under licences divide, as between Canadian-owned and foreign-owned?—A. There are 10 that are foreign-owned, all being owned in the United States of America.

Q. How do they compare in volume of business?—A. Oh, they are doing now perhaps 85 to 90 per cent of the total small loans business in Canada.

Q. They are foreign-owned?—A. Yes.

Q. Do the foreign-owned companies have Canadian shareholders? If they have, how do they classify them?—A. I do not recall any instance where they are ordinary shareholders, so to speak, that is, shareholders other than principal shareholders or directors.

Q. Mr. Chairman, would you ask Mr. MacGregor to give the information I have been asking in the form of a table dividing the companies on the basis of where their ownership is?

By Mr. Fulton:

Q. Before we leave the table, there is one other company which shows a remarkable increase, P. F. Credit. Would you also comment on that?—A. That is a subsidiary of Pacific Finance in the U.S.A. It incorporated a Canadian subsidiary in 1954, I think it was, with the name P. F. Credit. So it is a relatively new licensee and has been actively opening new offices in Canada.

By Mr. Fleming:

Q. In the case of those 10 American-controlled companies, are they companies in which the stock is almost completely owned by a U.S. corporation and for which the stock is more widely held than by individual investors in the United States?—A. I think in every instance it is held by a United States corporation. I shall name the 10 companies if you like. These are the 10 licensees that are owned, directly or indirectly, by a United States parent company: Canadian Acceptance Company, Household Finance Corporation of Canada, Personal Finance, Associates Budget Plan, Citizens Finance, Commercial Credit Plan, Custom Finance.

Q. Custom Finance is not in there?—A. Custom Finance is shown on table 4. After Custom Finance, P. F. Credit, then next Seaboard Finance, and finally Civic Finance.

By Mr. Monteith:

Q. Where do they appear?—A. Civic Finance is not in the list. It was just licensed in 1956; it is a new company. I think that I should clarify the ownership of these companies. I have mentioned that these 10 are owned directly or indirectly by a United States parent company. Canadian Acceptance is owned by Canadian Acceptance Corporation Limited which is a Canadian company but which in turn is owned by C.I.T. Financial Corporation, the United States parent company. So also, in the case of Household Finance Corporation of Canada, which is owned by Household Securities Limited, which is a Canadian holding company and it, in turn, is owned by Household Finance Corporation of the United States of America. Personal Finance is owned directly by Beneficial Finance Corporation, a United States corporation. Associates Budget Plan is owned by Associates Discount Canada Limited which is a Canadian company and in turn it is owned by Associates Investment Company, an Indiana company. Citizens Finance, formerly Blake-Pierce, is owned by the Equitable Credit Corporation of Albany, New York, directly. Commercial Credit Plan is owned by the Continental Guarantee Corporation of Canada Limited and the United States parent is the Commercial Credit Company, a Delaware company. Custom Finance is owned by two brothers in the state of Washington. P. F. Credit is

owned by P. F. Acceptance Limited, a Canadian company, the U.S. parent of which is Pacific Finance Corporation, a Delaware company. Seaboard Finance is owned by Seaboard Finance Company directly, a Delaware corporation. Civic Finance is owned by the Capital Finance Company of Columbus, Ohio.

By Mr. Michener:

Q. Your tables show the capital stock, I suppose, of all the companies, the investment in them by way of capital stock. Do those give the proportion of capital stock in the companies which are non-Canadian as against those which are Canadian—the amount of share capital investment by non-Canadian-owned companies as compared to the investment of Canadians?—A. I would have to add it up. I am sure though, if I do so, that some of the companies concerned would immediately say that I am not being fair to them, that while some of the largest have a very small capital as such, they have large amounts of effective capital in the form of borrowed money from the parent. I can readily add up the amount of capital.

Q. Perhaps then the amount of money employed by the two classes of companies would be a better comparison. I have in mind arriving at a percentage. We have been hearing about the percentage of investment in certain industries and fields which come from abroad, as compared to Canadian investment. I wondered what the percentage would work out to in the small loans field?—A. Well, in the past the large United States operators here have obtained their funds through their parent in the main, both in Canada and in the United States of America. That is, the parent has borrowed from sources in Canada and the U.S.A. and the parent has in turn loaned the money to the Canadian subsidiary. I would say, at the present time, that there is a greater tendency for the United States owned licensees to get all, or nearly all, of their funds from the U.S.A. They can borrow more favourably there at the present time.

Q. I understand that some of our loan companies are not permitted to raise capital by bond or debenture issues?—A. That is quite correct.

Q. Is that statutory?—A. Yes. It is in the Small Loans Act. Of course it applies only to small loans companies, being companies incorporated by parliament; but, as a matter of fact, we have always ensured that other licensees do not borrow on debenture from the public because we think it would be unfair if those licensees followed practices that the small loans companies are prohibited from following.

Q. I am interested in your opinion as to whether there is any reason for prohibition against raising money by bond or debenture.—A. There are a good many reasons, Mr. Michener.

The CHAIRMAN: Possibly since that is getting a little aside from where we are in the brief you might bring it up later, Mr. MacGregor.

The WITNESS: I will take it as notice of the question and answer it later, Mr. Chairman.

By Mr. Fleming:

Q. If Mr. MacGregor is going to follow up that question on some future occasion might I suggest that he include in his answer information which will give us the total employed capital borrowed as well as equity capital, so that we will have the complete picture?

I have one other question on an earlier point: with respect to these ten corporations all of which are owned directly or indirectly outside Canada—nine by corporations and one by two individuals. Is the stock of these companies sold anywhere on any public exchange, or are these corporations of a private nature with no possibility of anyone buying into the stock of those companies?—A. I think the answer to that is that some are closely held and some are

widely held. Whether or not those which are widely held are available on the United States exchanges I do not know. Some are closely held, but I think that the stock of the largest United States parent company is quite widely held. However I cannot say whether it is listed or not. Perhaps the company concerned might be able to give you an answer.

By Mr. Pallett:

Q. Is there any interlocking between those companies in any way?—A. I am not aware of any interconnection between the companies that I have mentioned.

By Mr. Michener:

Q. You mentioned British interests which have applied for a licence. Are there any non-Canadian licensees other than American?—A. Not at the present time.

Q. And that is the only application which is pending?—A. It has been in for some time and it looks like a serious desire to obtain a licence.

Q. Has the small loan business developed in the United Kingdom in recent years along similar lines as in Canada or the United States?—A. I could not say whether their volume of loans has increased the same way or not.

By Mr. Crestohl:

Q. Would it also be possible for you to place on record additional items as follows: one: how much income tax these American companies have paid in Canada during the past fiscal year; and two: how many people they employ in Canada, and what is the volume of salaries which they pay to Canadians working for them?

Mr. MICHENER: Would you not like to have the profits paid?

Mr. CRESTOHL: Very well, let us have them too and let us get the whole picture.

The WITNESS: Do you mean that you would like to obtain the salary scales or the total salary bill?

By Mr. Crestohl:

Q. The total quantum of salaries paid to Canadian employees of these companies in Canada.—A. The tables I have presented will show the totals for the largest operators but not for all.

By Mr. Cameron (Nanaimo):

Q. I wonder if Mr. MacGregor would be able to give us any information with regard to the matter he mentioned just now? I gathered he said that he understood that in the main at the present time these American owned companies are using American funds in making these loans in Canada. Would it be possible for him to find out for us what proportion of loans are based on borrowings from the Canadian chartered banks? I have in mind the evidence of two years ago when one bank official said that loans from the chartered banks to the small loan companies were a very important part of their business.—A. That information is given in table 5, Mr. Cameron.

Q. Oh, I was looking for it and I could not find it.—A. In table 5 the borrowings of the principal licensees are given and are sub-divided by source, first, from banks; second, from parent companies and affiliates; and third, from other sources.

Q. I am sorry that I had not been able to find it.

The CHAIRMAN: Mr. Fleming, I am sorry that I was not able to follow the relativity of your question as to whether any of the shares of these companies were sold on the American stock exchanges. What was the point?

Mr. FLEMING: I did not use the words "American stock exchanges"; I wondered whether they were available for public purchase, or held and not available for purchase.

The CHAIRMAN: It was not a question of their being listed on the American stock exchanges?

By Mr. Fleming:

Q. I did not say "American stock exchange"; I was dealing with the possibility of any person being able to purchase the stock of these companies and whether they were available for sale.—A. I would say there was no possibility of purchasing the stock in most cases because where the licensee is owned by a Canadian holding company, that holding company is in turn owned by a United States parent. One might buy into the United States parent, but I do not think there would be any likelihood of being able to buy into the Canadian holding company.

Q. I follow that, but I thought that to complete the picture in this case we should know whether it was possible for the ordinary investor, including the Canadian investor, to purchase stock in the Canadian holding company.—A. I will get the answer to that question.

By Mr. Michener:

Q. And whether any of the Canadian companies are—whether their shares are distributed?—A. The Canadian-owned companies?

Q. Yes, whether any of them have been publicly financed through a great number of shareholders or whether they are closely held like the American ones?

By Mr. Monteith:

Q. Will this only apply to those licensees making loans of \$500 or less?—A. That is right.

By Mr. Pallett:

Q. Could you give us any indication of the amount of increase in the branches of other lending institutions in Canada? Have you the figures available of the number of branch banks, and credit unions and the like?

The CHAIRMAN: You would have to include insurance companies as well because they are lending institutions too.

The WITNESS: I am sorry. We have no consolidated data either for the banks or for the credit unions. But statistics are available for each and I think they could be readily obtained.

By Mr. Pallett:

Q. I thought it might be interesting to compare those three.

The CHAIRMAN: I think it would show the general economic expansion. Could you get that, Mr. MacGregor?

The WITNESS: I shall do my best. Now referring to this table showing increases in the number of branches, Niagara Finance has increased by 19, and P.F. Credit has increased by 21. In addition to these branch offices, there were 65 main offices at the end of 1954 and 70 at the end of 1955. The total number of head offices and branch offices has increased from 384 at the end of 1950 to 772 at the end of 1955, i.e., by a little over 100%. It seems clear that the lending field under present conditions is exceedingly attractive.

By Mr. Fleming:

Q. Was there not one branch closed?—A. One licence was not renewed this spring; it was the Family Loan Corporation in Halifax which has been in a moribund state for some time and its licence was not renewed as from June 1st of this year. Actually there have been four new licences granted since the end of 1955, but there was one terminated, so this accounts for the increase of only three from 70 at the end of 1955 to 73 at the present time.

By Mr. Michener:

Q. Would the conclusion not be that there are a great many more customers, that is, more Canadians wanting to borrow money?—A. I am sure that is correct!

Items 2, 3, 5 and 6 of Table 1 show that the number and volume of loans of \$500 or less made each year are still increasing, although at a somewhat diminished pace, but the balances outstanding show a tendency to flatten out. These trends are attributable to a rapid shifting toward loans of a larger amount nowadays, as reflected in table 2, involving also the refinancing of smaller loans when partly repaid in order to obtain larger loans. Reference to page 59 of the department's annual report for 1954 will show that of the total small loans made in that year about two-thirds, by amount, were made to "current" borrowers who nearly doubled the balances remaining unpaid on their previous loans, while nearly 80% of the total loans made were to the "current" borrowers or to "repeat" borrowers, the latter being previous customers who managed to repay their loans in full.

I may say that the data for 1955 show a very similar result.

Amongst the older lenders the proportion of "current" and "repeat" borrowers is generally higher than amongst the relatively newer licensees. The evidence is mounting that borrowers are getting deeper and deeper into debt rather than attaining solvency through loans. No doubt the current trend is part of the ever-growing practice, even in good economic times, of buying on the instalment plan or spending against the future beyond prudent limits. In other words, mismanagement of personal finances rather than misfortune would seem to underly a great proportion of the loans made.

By Mr. Fleming:

Q. I have one question on item 2; there is a big drop from 1947 to 1948 in the number of small loans made by many lenders; in fact they dropped to less than one-half between 1947 and 1948. What is the explanation?—A. The discontinuity there is explained by the change in the status of Household Finance Corporation Limited, (formerly Campbell Finance.) Until 1948 it was licenced as a money lender, but at the beginning of that year it transferred its small loans business to Household Finance Corporation of Canada. That was the point I dealt with a little earlier.

Q. It simply moves it up to the next line in 1948?—A. That is right.

By Mr. Hollingworth:

Q. In the money lenders statement are the loans of the Household Finance Corporation included there or not?—A. They are not.

Q. I notice that Personal Finance is a licensee, and that all loans up to \$500 would be included, yet they are not included for Household Finance.—A. That is because loans made above \$500 are made by Household Finance Corporation Limited and are no longer being made by Household Finance Corporation of Canada.

Q. I submit that it does not give you a proper picture.—A. I thought it better to confine the tables to the licensees, being organizations with which we are officially connected, and in these notes I have done my best to provide the full picture.

By Mr. Michener:

Q. Mr. MacGregor makes some reflection here on the times which I am sure we all make. I wonder if he made any comparison in the tables, or could give us any comparison between this great expansion of the personal loan business in Canada and the great expansion in instalment buying which we read about as characteristic of these last few years. They seem to be two aspects of the same thing, and I wondered whether he has any figures which would draw a parallel?—A. I think they are roughly comparable; they are all part and parcel of the same thing, buying on time.

Q. You mean spending future income for present enjoyment?—A. Certainly there are many loans made to ease the financial situation of a family which has over-extended itself in buying goods on time.

Q. My other question is: we are dealing of course with proposed amendments to the act; are these amendments, if they are accepted, going to change the habits of people in any respect on which Mr. MacGregor comments in this paragraph?—A. I do not think the amendments would change the habits of people directly; but if the lending business becomes somewhat less attractive than it is now, then there will not continue to be the same influx either of new licensees, new lenders, or the same expansion in lending facilities.

Q. Is it your thesis that this great expansion in borrowing is taking place because more money is being offered, or because people want to borrow more?—A. I think it is both.

Q. That is really the answer that I wanted to get to my question in the discussion of this paragraph, because there is a view that we have to try to relate the amendments to the problem, and I think it is suggested that it is a problem, and there is so much of it which is a political problem, and there is so much comparison with other classes of business.—A. I think that too many offences tend to encourage borrowing.

Q. I notice your opinion expressed earlier—I have forgotten your exact words, but I think you said there was not only borrowing for need but needless borrowing; and I think that is a question we will want to review later.

The CHAIRMAN: I was wondering about the last sentence there, whether that was your own conclusion, or whether it was founded upon actual investigation of the loan business, where it says:

In other words, mismanagement of personal finances rather than misfortune would seem to underly a great proportion of the loans made.

I wondered whether that was your personal conclusion, or whether it was based on a study of individual loans.

The WITNESS: I was prompted to make that remark for two reasons; one is the reason mentioned just a moment ago namely that about 80 per cent of the loans made are to people, either current or repeat borrowers, who remain continually in debt. The second reason stems from the complaints and inquiries we have received in the department from people who have started, let us say, with a loan of \$100 and after it was repaid in part, apparently went back and got a loan for \$200 or \$300. We have seen a series of loans up to 6, 7 or 8, in which they keep on borrowing until they reach an indebtedness of perhaps, \$3,000.

The CHAIRMAN: My experience with people in business is that they are constantly borrowing from the banks back and forth, and because that is done,

nobody regards that borrowing or questions it as mismanagement; it is regarded as normal practice and I wondered whether this conclusion was correct.

Mr. HOLLINGWORTH: You are talking about a lawyer's overdraft overtime!

The CHAIRMAN: And many other things!

By Mr. Cameron (Nanaimo):

Q. Perhaps you might be able to persuade the Minister of Finance to extend the 20 per cent tax on advertising to all advertising.—A. I was brought up to believe that one should borrow only if in need, but he should try to repay it and get out of debt and not remain in debt. However, the evidence is that more and more people are not only remaining in debt but are getting more deeply in debt.

Mr. FLEMING: Some of us were brought up under the same rules, and we sometimes wonder, when we look at the example of the government today.

The CHAIRMAN: I think we are getting a little aside!

Mr. MICHENER: If you can borrow enough, it is called high finance; but if you cannot, it is called mismanagement.

The CHAIRMAN: Would someone move that the statistical tables be printed as appendices to today's proceedings?

It has been so moved.

Carried.

(See Appendix "A" to "I".)

Some people have asked for the order of business. Our order of business as laid down and approved by the committee—that is, recommended by the agenda committee and approved by the committee, is to hear Mr. MacGregor, first, of course, and then to hear representations from or ask questions of officials from the following: Canadian Consumer Loan Association; Canadian Bankers Association; Canadian Bank of Commerce; Personal Finance Company of Canada; Niagara Finance Company Limited; La Fédération des Caisses Populaires of the Province of Quebec; the Credit Union National Association, Inc. In addition I have taken it upon myself—perhaps contrary to the wishes of the committee—that we call Mr. Varcoe, Deputy Minister of Justice, to give us the constitutional aspects of the legislation. I was proposing to bring Mr. Varcoe in immediately following Mr. MacGregor. Is that satisfactory?

It is agreed. Agreed.

Mr. MICHENER: Might that not inconvenience the great number of people gathered here who would have to sit here while we heard Mr. Varcoe, who could come at any time?

The CHAIRMAN: Some people have raised the complaint with me as to the question of advertising and whether the field should not be extended to cover acceptance corporations and that sort of thing, and I thought if Mr. Varcoe could give us his views, it would save us from going into questions which might involve a great loss of time and over which we had no jurisdiction.

Mr. FLEMING: There might be some advantage not only to the committee but to those who are to be heard later if they could hear Mr. Varcoe's statement earlier.

The CHAIRMAN: I do not think it would be a very long statement, but I thought at that stage it would probably be the best spot for it.

Mr. MICHENER: Could we have some indication of the time of sittings?

The CHAIRMAN: The committee agreed at the last meeting that we would sit twice a week, Tuesdays and Thursdays; and in view of the heavy house

work that we would not want to sit twice a day. That arrangement could be continued and I think we should try it out and see how it works. Our next sitting would be next Tuesday.

Mr. FLEMING: I did not hear any reference to the Association of Canadian Small Loan Companies. I was looking at the 1946 proceedings this morning and I saw that the committee that year did hear from Mr. Louis Blake Duff president of the Association of Canadian Small Loan Companies. Is that association no longer in existence?

Mr. C. M. CAWKER (*President, Canadian Consumers Loan Association*): Mr. Chairman, the association referred to has undergone a change of name.

Mr. FLEMING: We will hear from them?

The CHAIRMAN: It is now called the Canadian Consumer Loan Association.

Mr. CRESTOHL: Is it agreed that we hear from Mr. Varcoe next?

The CHAIRMAN: Is it agreeable?

Mr. CRESTOHL: I so move.

The CHAIRMAN: You have heard the motion?

Carried.

I am sorry to have interrupted. Please carry on Mr. MacGregor.

The WITNESS: Item 4 of table 1 indicates that the average small loan is no longer increasing but it must be remembered that this is the average only for loans made in amounts not exceeding \$500. If loans over \$500 were also included, the over-all average would show a rapid increase. Unfortunately, accurate data in consolidated form are not presently available showing the size of loans made above \$500.

Items 7 and 8 show the income earned on small loans and I have already explained the reason for the reduced income between 1944 and 1950.

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Items 9, 10 and 11 show the net amounts written off loans and the net amounts transferred to reserves for bad debts expressed as percentages of the balances of loans outstanding. If the basis were the amounts of loans made, the percentages would be reduced by approximately one-half. The record indicates that Canadian borrowers are very reliable and that losses are slight. The net amounts written off annually have averaged about $\frac{1}{2}$ of 1 per cent of outstanding loan balances, or $\frac{1}{4}$ of 1 per cent of the amount of loans made. Reserves for bad debts are maintained at about 3 per cent of outstanding loan balances, and since the growth of small loan balances has tended to slow up, the annual transfers for this purpose are now quite small. The record in the table extends back only to 1940 when the act came into force and it may be thought that losses during less favorable economic times might be much heavier. If the depression years in the thirties are any guide, there would seem to be little to fear since the experience of the three small loans companies during that period was equally good. For example, for the years 1934-1937, the net amounts written off were only about $\frac{1}{4}$ of 1 per cent of outstanding balances. On the other hand, write-offs in one state of the U.S.A. were reported to be as high as 11 per cent of loan balances in 1933 and about 5 per cent in 1938. Losses in the U.S.A. have generally been higher than in Canada.

By Mr. Pallett:

Q. What state was that?—A. Iowa.

By Mr. Michener:

Q. Have you the figures back to 1931-32 for the American districts?—A. Not readily. The figures I have stated for Iowa were given by their supervisor who testified before this committee in 1937 or 1938.

Item 12 of table 1 is intended to show the trend of expenses per small loan account per month. The average cost has been computed in the manner indicated mainly to facilitate comparison with the U.S.A. where the published figures are generally computed in this manner.

If the hon. members will look at item 12; it is designated "average cost per outstanding account per month including income tax, net write-offs, net transfers to reserves for bad debts but excluding interest on borrowed money."

As might be expected, the average showed a tendency to decline during the war when costs were stable and volume was increasing; thereafter, the average increased steadily as the price level rose but the greatly increased volume has done much to offset rising prices so that the average cost now, \$2.19 per account per month, is only about 50 per cent more than the average during the war. However, this cost is inflated to some extent by current expansion costs and, furthermore, the average size of loan has increased greatly. The relationship between the average size of loan and average cost per account per month is approximately the same now as during the war. In the U.S.A., the average cost in many states is of the order of \$4.00 per account, or nearly double that in Canada.

By the Chairman:

Q. Is there some reason you know of for that?—A. Higher salaries, higher rent and higher losses, are some of the reasons.

By Mr. Michener:

Q. Losses are included in the average cost per month?—A. Yes.

Q. And they are higher?—A. Yes.

By Mr. Fleming:

Q. And they still are?—A. That is right.

Q. Do you attribute that to any difference in the habits of the people as between Canada and the United States? Are we more cautious as a people and less disposed to go into debt?—A. I think that the lenders themselves may be in a better position to answer that question because they are in closer contact with the people who borrow than we are.

Mr. CRESTOHL: Let us take the statement for granted! Let us take it for granted, that the borrowers in Canada are perhaps of a better character!

Mr. FLEMING: I was thinking about the habits and the Scottish instincts in the Canadian population!

By Mr. Michener:

Q. Perhaps it is a compliment to the people who are lending money.—A. Canadian borrowers do not seem to say "n" to lenders as readily as they do in the United States.

The CHAIRMAN: It is a very flattering conclusion but I do not think you can draw it.

The WITNESS: Items 13 and 14 relate to earnings. Lenders operate in varying degrees and frequently to a large extent on money that they themselves have borrowed. Information concerning the extent of borrowed money compared with lender's own funds will be found in table 5. Interest paid on borrowed money is, of course, deductible from taxable income so that both the weight of income tax and profits vary according to the proportion of borrowed money in the total funds employed. The profit on a lender's own dollar is obviously greater than on a borrowed dollar since interest must be paid on the latter, but so long as some profit can be made on a borrowed dollar the total profits will be increased by borrowing. Assume, for example, that a lender's gross rate earned

is 8 per cent of loan balances or funds employed, measured before paying interest at 5 per cent on borrowed money and income tax at 50 per cent. On a lender's own dollar, the profit after tax would be 4 per cent.

The 8 per cent would be cut in two. It might therefore appear that since this rate is less than the rate payable on borrowed money, it would be uneconomic to borrow; that the gross rate earned is too low to permit operations to continue on a practicable basis. But such a conclusion would be incorrect since it is based on adjusting for income tax before interest on borrowed money whereas in practice interest on borrowed money is deducted from taxable income before income tax is calculated. Thus, on every dollar borrowed under the foregoing assumptions, 3 per cent would remain after paying interest and $1\frac{1}{2}$ per cent after paying income tax.

The CHAIRMAN: That would be where the interest was 5 per cent.

The WITNESS: That is correct.

If for every dollar of a lender's own funds one dollar can be borrowed, the total profit in relation to each of his own dollars would be 4 per cent plus 1.5 per cent or 5.5 per cent; or, if three dollars can be borrowed, the total profit would be 4 per cent plus 4.5 per cent or 8.5 per cent.

By Mr. Michener:

Q. I do not follow the computation of the income tax on the lender's dollar. The statement says "that a lender's gross rate earned is 8 per cent of loan balances".—A. After all expenses except two things; interest on borrowed money and income tax.

Q. It is really not profit before taxes?—A. It is profit before paying interest on borrowed money and taxes.

Q. I am speaking of the lender's own dollar.—A. Before income tax.

Q. Is that what it is on, the lender's dollar at 8 per cent?—A. That is hypothetical.

Q. Oh, I see.—A. The point I wish to make is that even if the return on the lender's own dollar is less than the rate he must pay on a borrowed dollar, he may still carry on business profitably.

Q. These are just hypothetical figures. I was questioning if there was a gross net profit of 8 per cent before tax?

The CHAIRMAN: I think the figures will be here to show us later on.

By Mr. Fleming:

Q. To complete it, when you arrive at a figure of 8.5 per cent, again that is before income tax.—A. No, that is after income tax.

Q. You say it is after income tax?—A. Yes, 8.5 per cent is in relation to the borrower's own dollar but where he also borrowed three other dollars.

Q. That is an illustration of the advantage of high equity capitalization.—A. The advantage of borrowing.

Q. That is the advantage of borrowed capital rather than a high degree of equity capital.—A. My main point was the one I mentioned, that even though the net rate earned after income tax on a lender's own dollar is less than the rate he must pay to borrow a dollar, he may still make a profit on borrowed dollars, and the more he can borrow, the more is his profit.

By Mr. Michener:

Q. This is well proven too by way of illustration.—A. It is hypothetical only.

The CHAIRMAN: Since it is now one o'clock I suggest that we adjourn and reconvene on Tuesday next at 11 a.m.

Mono tables A to I follows:

Government
Publications

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